



# Financial Statements 2016/17





CONTENTS

4 Chairman and Chief Executive's Statement

8 Report of the Board

26 Strategic Report

37 Value for Money

45 Independent Auditor's Report

46 Consolidated Comprehensive Income Statement

47 Association Comprehensive Income Statement

48 Group Statement of Changes in Reserves

48 Association Statement of Changes in Reserves

50 Balance Sheets

51 Cash Flow Statements

54 Notes to the Financial Statements

## CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Housing & Care 21 is in a strong position. We have shown continued improvement in our financial performance and will now be focusing on our core businesses of Retirement Housing and Extra Care following the sale of our Home Care operations. We have achieved considerable efficiency savings and laid the foundations for a substantial expansion of our growth and development as well as increasing our investment in improving our existing properties and services. We are thus well positioned to continue to achieve our purpose of providing contemporary housing and care services and solutions for older people of modest means.

Having evaluated the option of a merger with the Sanctuary Group in June 2016, we were not convinced that the commitments made would have materialised, or that the merger would have been in the best interests of the older people we are seeking to serve and support. We concluded that by remaining independent we could do more, be more effective and efficient, maintain higher quality standards and have a greater impact. We have therefore developed a clear and ambitious strategy to make the most of our inherent strength and capacity that will allow us to look to the future with increasing confidence.

### Achievements and ambitions

The results presented in these Financial Statements and Report of the Board demonstrate the success that has been achieved in terms of financial results as well as improved service performance and the capacity to go even further and do more.

The ambitions set out in our Strategic Plan identify seven key priority areas for investment and improvement.

### Providing more homes

We are on target to build 2,100 new Extra Care properties and 210 new Retirement Housing properties by 2021. Thereafter, we intend to increase our development programmes even further to build 800 new properties each year. At least 70% of these will be for affordable rent or shared ownership. We are also committed to ensuring that we build homes that are innovative and exceptional in terms of their design and quality. In addition, we will pursue opportunities to acquire further good quality Retirement Housing and Extra Care properties from other providers, and in line with these plans we have just taken on 563 properties from Your Housing Group.

### The quality of our existing properties

We are investing £27m a year for five years (£135m in total) up to 2021. This will bring all our properties up to a modern standard, with kitchens and bathrooms all under 20 years old and all courts having a design-led makeover of their communal areas within the past seven years.

In order to ensure that residents can affordably heat their homes, we have also made a commitment to ensure that all properties have an EPC rating of at least C.

Additional funding has been set aside to ensure that our excellent portfolio of Extra Care developments is maintained in top condition and all building defects are addressed.

### Improving the quality and responsiveness of our services

We are committed to retaining local court managers as the focus for our services, as well as seeking to devolve choices and decisions to be made and managed at a local level to maximise independence and autonomy for residents.

Our aim is to provide professional services of an assured quality standard that deliver high levels of customer satisfaction. Currently 85% of our services are rated as good by the Care Quality Commission. Our aim remains for this to reach 100% and to achieve a 95% level of resident satisfaction.

### Our people and potential

The success of Housing & Care 21 depends upon the people who put the aspirations of the organisation into practice on a daily basis. We previously achieved the Investors in People Silver standard, and we remain committed to continuing to use this framework to drive our performance and achieve the Investors in People Gold standard. This will help us create a positive and diverse working environment where staff are motivated, valued and recognised for the great things they do.

We are also taking advantage of the apprenticeship levy to increase investment in training front line staff to undertake the Chartered Institute of Housing (CIH) level 3 and the Health and Social Care level 5 qualifications.

### Systems and technology

We have been leading the way in moving away from analogue (red string) call systems to digital equipment with enhanced functionality, instant connection capability and multiple lines of communication.

We have also initiated a project to implement new systems and ways of working that will significantly improve the responsiveness and efficiency of our court based services. The first phase of the new system is due to go live from April 2018.

### Value for Money

We have demonstrated a track record of growing our services and doing more while at the same time reducing our corporate overhead costs. Further savings and efficiencies have also been made as a result of the disposal of the Home Care business.

Even though our costs compare favourably with those of other providers of equivalent services, there is no scope for complacency. We intend to challenge ourselves to look at ways of making further efficiency savings. It is also important to be able to demonstrate the value that our services offer in order to justify the additional costs associated with the operation of Retirement Housing and Extra Care services and properties.

### Innovation and influence

Housing & Care 21 is a dementia-friendly organisation and by creating dementia-friendly people, places and processes we are seeking to help people live well with dementia. We are seeking to influence other organisations to also be more dementia-friendly, and worked with the Alzheimer's Society to create a dementia-friendly housing charter to help all organisations within the housing sector commit to addressing dementia in their provision and approach. We have helped over 3,000 of our current and past staff to become Dementia Friends. In the past year 869 of our residents have also become Dementia Friends, but we would like that number to grow to 9,000 by 2021.

We have been recognised for our innovation in moving from analogue to digital call systems and for our commitment, following the success of pilot projects, to install free Wi-Fi in the communal areas of all our Extra Care courts over the coming year.

We have also demonstrated our credentials as leaders in matters of policy and practice by speaking at numerous conferences, meeting with ministers and working with the All Party Parliamentary Group on Housing and Care for Older People to produce the third HAPPI Report (Housing our Ageing Population Positive Ideas). In 2016, we jointly staged a conference with the University of Birmingham on the challenges facing the housing sector. In 2017, we will hold another major conference to bring together practitioners and academics to consider the challenges and potential solutions for housing older people.

Lord Ben Stoneham, Chairman



## CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

These corporate ambitions are translated into specific targets and priorities for each of our two core business divisions of Retirement Housing and Extra Care. This year we took the difficult decision not to carry on providing Home Care services. Notwithstanding the steps taken to improve the quality, levels of client satisfaction and profitability of this service, it was evident that this could not be sustained at an acceptable level given the prevailing pressures in the commissioning environment. The Home Care business was therefore sold as a going concern to Ark Home Healthcare, who were identified as a suitable purchaser because of their track record and commitment to quality.

All the agreed rectification works required for the Oldham PFI contract were completed in May 2016, ahead of schedule, and this contract is now very much back on track providing much improved properties and high quality services to Oldham Council's older residents. This allowed us to celebrate the first 10 years of this important project in a positive manner. We look forward with confidence to achieving continued high levels of resident satisfaction and a satisfactory financial return for the project overall.

### Principles and partnerships

Our desire to fulfil our purpose, improve and be a leading organisation continues to be underpinned by the three core principles of '21', 'Better' and 'Experience'.

#### 21

'21' is in our name to show we are committed to providing modern, forward thinking 21st century services. We are committed to updating and modernising our existing housing, as well as developing new and innovative property designs and service models for the future.

#### Better

We continually strive for improvement and will not be complacent. We look for opportunities to innovate and challenge ourselves to do better and provide excellent service and value for money.

#### Experience

Our aim is to provide consistently excellent customer service and experiences for all the people we serve. Ultimately the success of Housing & Care 21, as with any organisation, depends upon providing satisfaction to our residents.

Housing & Care 21 cannot, however, function on its own, and we therefore depend upon and value the strong partnerships and relationships we have with our key stakeholders.

We work with many local authorities who commission and contract for our services. These relationships will become even more important if housing benefit is capped at the Local Housing Allowance (LHA) levels. Local authorities would then become responsible for the distribution of top-up payments to fund the additional costs that are required to sustain the infrastructure and support that Retirement Housing and Extra Care services provide.

We work in partnership with our suppliers both nationally and locally to provide the right service at the right cost. We have had considerable success in devolving contract decisions to local staff in order to give more choice and control,

and intend to continue to support this strategy whenever it is possible and practicable to do so.

We are totally dependent upon the commitment, engagement and support of all our staff who consistently go above and beyond the expectations of their role to deliver exceptional performance. We would like to record our thanks, gratitude and appreciation for all the hard work and contribution that staff has made to the progress and achievements of Housing & Care 21 over the past year.

We are also fully committed to engaging and involving our residents and customers in shaping the service they receive and the way Housing & Care 21 operates. We currently have a 'Viewpoint' panel of nearly 900 residents, who are actively engaged in sharing views on matters such as service charges, complaints processes, technology, kitchen and bathroom designs and how to address future funding challenges. We have had a resident board member, encourage Resident Associations at Courts, hold numerous resident engagement events and regional conferences as well as conducting frequent surveys to gauge satisfaction and gather feedback. The most important factor though is in empowering residents to make their own choices and decisions at a local level. We have introduced a framework for this to occur on a site by site basis.

Housing & Care 21 is fortunate to have had a strong and effective Board and Executive Team who have demonstrated their worth in taking some particularly important decisions over the past year. We are about to lose the services of Jenny Owen, Simon Fanshawe and Ken Jeffries as Board members as they will come to the end of their terms of office at the Annual General Meeting in September 2017. We thank them for their excellent service. They will certainly be missed for the colour, character and above all else the quality of their contributions. We are confident though that a rigorous recruitment process will give us the opportunity to appoint new Board members with the skills, attributes and independence of thought required to ensure the continued success of Housing & Care 21.



Bruce Moore, Chief Executive



## REPORT OF THE BOARD

### Organisational and governance structure

#### Principal activities and structure

Housing & Care 21's purpose is to provide contemporary care and housing services and solutions to address the needs of older people of modest means who will benefit from the support provided by Retirement Housing and Extra Care:

- Housing & Care 21 own and manage 19,589 properties
- We have 12,309 Retirement Housing properties (11,571 properties for social rent, and 738 leasehold properties) in England, covering over 150 local authorities

- We are the largest provider of Extra Care housing in England with 152 schemes representing 5,804 properties (which includes properties under the Walsall PPP and Kent PFI contract), which also provide 40,000 care hours a week
- We manage 1,476 properties for other organisations, predominantly for Oldham Council (1,432 properties)
- We have continued to develop new Extra Housing for older people, with 113 new units completed in 2017 (2016: 256)
- We are promoting dementia awareness and have five specialist dementia units. All staff are given the opportunity to be a Dementia

Friend. We have over 3,000 current and past staff members who are Dementia Friends. Over the next 5 years, Housing & Care 21 has pledged to raise awareness about dementia through helping 9,000 of our residents become Dementia Friends

- In 2017, we took the decision to dispose of the Home Care business which was sold as a going concern
- Housing & Care 21 employs over 2,860 full-time equivalent staff (excluding Home Care staff)

The mission of Housing & Care 21 is to support independence and choice for older people through quality housing, care and support.

#### Group structure and active companies as at 31 March 2017

**Housing & Care 21 (the Parent)** is a Co-operative and Communities Benefit Society with exempt charitable status. As a Registered Provider of Social Housing, it provides care and housing with associated amenities. It is registered with the Financial Conduct Authority (FCA) and its housing activities are regulated by the Homes and Communities Agency (HCA) and its care activities are regulated by the Care Quality Commission (CQC). Its constitution is contained in its Rule Book.

The Group's active subsidiaries are:

**H21 Guernsey LBG (H21G)** is a private company limited by guarantee and incorporated under and subject to the law of the States of Guernsey. The purpose of this subsidiary is the ownership and management of an Extra Care scheme in Guernsey.

**Kent Community Partnerships Limited (KCP)** is a Co-operative and Communities Benefit Society with exempt charitable status. It is a special purpose vehicle set up under the Public Finance Initiative (PFI) to build and manage extra care housing in Kent under a contract with Kent County Council.

**Oldham Retirement Housing Partnership Limited (ORHP)** is a Co-operative and Communities Benefit Society with exempt charitable status. It is a special purpose vehicle set up under the PFI to refurbish and manage Retirement Housing and Extra Care properties in Oldham under a contract with Oldham Metropolitan Borough Council.

#### Our Board Membership

We are committed to maintaining the high standards of organisational governance as set by the Board. The commitment and contribution from the Board has enabled the organisation to continue to achieve robust governance at the highest level.

#### Board and committee members

The Board of Housing & Care 21 exercises control and formulates strategy, both directly and through delegation to its committees. The role and detailed responsibilities of the Board, including those which cannot be delegated, are set out in the Governance Handbook which is aligned to the National Housing Federation (NHF) Code of Governance.

Name	Position	Appointed	Main board attendance
Lord Ben Stoneham	Chair / Member	29 July 2011	6 out of 6
Kathleen Boyle	Member	31 January 2014	6 out of 6
Simon Fanshawe OBE	Member	29 July 2011	6 out of 6
Stephen Hughes	Member	31 January 2014	6 out of 6
Richard Humphries	Member	21 October 2009	5 out of 6
Ken Jeffries	Member and Resident	24 September 2010	6 out of 6
Michael Knott	Member	31 January 2014	6 out of 6
Jenny Owen CBE	Member	31 May 2011	6 out of 6
Liz Potter	Vice Chair / Member	31 January 2014	6 out of 6
Sanaya Robinson	Member	6 November 2009	6 out of 6

#### Board committees

The Board has delegated specific responsibilities for internal and external audit and risk management to the Audit and Risk Management Committee, and responsibilities for remuneration, nominations and the governance framework to the Governance Committee.

Lord Ben Stoneham is invited to attend the Audit and Risk Management Committee and Governance Committee but is not a member of these committees.

Membership of Committees is as follows:

Audit and Risk Management Committee	Position
Sanaya Robinson (Chair)	4 out of 4
Stephen Hughes	4 out of 4
Ken Jeffries	4 out of 4
Michael Knott	4 out of 4
Jenny Owen CBE	3 out of 4
Governance Committee	Position
Richard Humphries (Chair to 30 September 2016 )	5 out of 6
Liz Potter (Chair from 30 September 2016)	6 out of 6
Simon Fanshawe OBE	6 out of 6
Ken Jeffries	6 out of 6
Jenny Owen CBE	6 out of 6
Sanaya Robinson	6 out of 6

Membership of other Boards in the Group structure is as follows:

ORHP	Position
Stephen Hughes (Chair)	3 out of 3
Lord Ben Stoneham	2 out of 3
Jenny Owen CBE	3 out of 3
Liz Potter	3 out of 3
Bruce Moore	3 out of 3
Paul Weston	3 out of 3

H21 Guernsey LBG	Position
Kathleen Boyle (Chair)	2 out of 2
Michael Knott	2 out of 2
Simon Fanshawe	1 out of 2
Richard Humphries	0 out of 2
Bruce Moore	2 out of 2
Paul Weston	1 out of 2

KCP	Position
Michael Knott (Chair)	3 out of 3
Kathleen Boyle	3 out of 3
Liz Potter	3 out of 3
Bruce Moore	2 out of 3
Paul Weston	3 out of 3



REPORT OF THE BOARD

Board member experience

Lord Ben Stoneham



Ben spent most of his career in the newspaper industry as an operational manager and PLC director. He has developed

considerable experience of housing, having previously been the Chair of two other housing associations and a major urban regeneration scheme. He was formerly the frontbench spokesperson on Business, Innovation and Skills for the Liberal Democrats in the House of Lords, and is currently their Chief Whip.

Kathleen Boyle



Kathleen brings knowledge and familiarity of the housing and care sectors through 30 years' experience working in national and local organisations. Her roles have included policy development at the NHF, Board Member at Croydon Churches Housing Association and Regional Leader for L'Arche UK, a charity providing housing and care.

Simon Fanshawe OBE



Simon is an entrepreneur, non-executive director and broadcaster who regularly comments on diversity, social

policy, politics and the arts. He currently works with organisations to use diversity to transform their performance and culture. Until 2013 he was Chair of Sussex University's governing council. He was a co-founder of Stonewall. He is on the Board of Brighton Dome and Festival, The Kaleidoscope Trust and The Museum of London.

Stephen Hughes



Stephen has extensive local government experience having been the Chief Executive of Birmingham City

Council and within the last 12 months held the Interim Chief Executive role at Bristol City Council. He is a qualified accountant and also a member of the Institute of Customer Service. Stephen brings insight into delivering first class customer services in the housing and social care environment and knowledge and experience of PFI projects.

Richard Humphries



Richard has considerable understanding of health and social care issues through his role as Senior Fellow at the health

policy think-tank the King's Fund, and over 35 years' experience in local government, the NHS and central government. He is also a non-executive director of Wye Valley NHS Trust.

Ken Jeffries



As a resident Board member, Ken provides the customer input and perspective into the decision-making and strategic direction of

the Board. Ken has worked as a customer services manager and was a mortgage and insurance broker, as well serving in the Royal Navy.

Michael Knott



Michael provides an extensive range of experience from a career that has moved from consumer goods, through engineering

and then to health and social care. Michael founded Caring and Support Today Limited, an organisation dedicated to providing help and advice for people seeking care. Michael was also previously the managing director of Shaw Healthcare.

Jenny Owen CBE



Jenny brings 36 years' experience of social care in local authorities, central government and regulation. She was previously Deputy

Chief Executive and Director of Adult Social Care at Essex County Council. Jenny is also an experienced non-executive director who is vice chair of both the Royal Free Hospital London and the Alzheimer's Society. She is a member of the King's Fund Advisory Group and Association of Directors of Adult Social Services (ADASS) having been the President in 2010.

Liz Potter



Liz has 30 years of housing experience and brings a range of experience to the Board. She is currently the Chair of Curo, having

previously been Chair of Orbit Housing Group. Liz advises on governance and has been involved in recovery action plans with the HCA. As Director of Policy at the NHF, she negotiated a much improved deal for housing associations on rent restructuring and support funding for older people. Liz is also an Executive Coach and a Board Member of Care and Repair England.

Sanaya Robinson



As a chartered accountant and corporate treasurer who has held a number of senior finance management and director posts in

high profile organisations, Sanaya brings best practice expertise on financial reporting and audit committee issues. She has worked for FTSE 100 plcs and as interim finance director of a housing association. Sanaya's non executive director experience includes another registered provider and serving as Audit Committee Chair at a building society.

Executive and Secretary



**Bruce Moore**  
Chief Executive



**Paul Weston**  
Chief Financial Officer



**Tony Tench**  
Chief Operations Officer

Secretary Name	Position
Paul Hutton	Head of Legal Services and Company Secretary

The Executives are supported by the Senior Management Team. The Board has a delegated authority framework which includes specific delegation to the Executive and the Senior Management Team.

<b>Bankers</b>	Barclays Bank plc	Corporate Banking, Level 28, 1 Churchill Place, Canary Wharf, London E15 5HP
<b>Independent external auditors</b>	BDO LLP	2 City Place, Beehive Ring Road, Gatwick RH6 0PA
<b>Principal solicitors</b>	Devonshires LLP	30 Finsbury Circus, London EC2M 7DT
	Trowers and Hamlins LLP	3 Bunhill Row, London EC1Y 8YZ

Registration

Housing & Care 21 is incorporated under the Co-operative and Community Benefit Society Act 2014 (Registered number 16791R) and registered under the Housing and Regeneration Act 2008 (Number L0055). Housing & Care 21 is an exempt charity. Housing & Care 21's registered office is Tricorn House, 51-53 Hagley Road, Edgbaston, Birmingham B16 8TP.

Insurance of directors and officers

Directors are covered by directors and officers liability insurance to an indemnity limit of £10m in respect of their duties as directors of the Group.

## REPORT OF THE BOARD

### Corporate governance report

#### Board Member's responsibilities

The responsibilities and expectations of Board members are documented in Board member contracts and are further outlined in the Governance Handbook. All Board members share collective responsibility for:

- Setting plans to achieve the objectives of the Group, and taking key decisions in relation to them
- Approving and reviewing the annual budget and financial statements for the Group
- Establishing and overseeing a framework of delegation to staff
- Monitoring the Group's performance in relation to the agreed plans, objectives, budgets and risk mitigation
- The effective working of the Board
- Ensuring that the Group's affairs are conducted solvently, lawfully and in accordance with accepted standards of best practice and propriety

On an individual basis, Board member responsibilities include:

- Supporting the values and objectives of the Group
- Contributing to the decisions of the Board and any Committee of which they are a member by drawing on their skills and experience
- Representing the Group positively to all external audiences, respecting confidentiality and complying with the National Housing Federation (NHF) Code of Conduct
- Registering all interests that might have a bearing on the Group's work and declaring any potential or actual conflicts of interest as and when they arise

In order to discharge these formal duties the Board met formally six times during 2016/17, it held telephone meetings to discuss specific individual matters, and held an away day session.

The Board made key decisions in relation to organisational strategy and change and the management of risk, including development and investment activities, decisions over the proposed merger, the disposal of the Home Care business and operational performance including care quality, resourcing, systems and structures.

In addition, the Board received information on and discussed issues which arose in the wider social, political, economic environment and care and housing sectors, which included general regulatory and legislative changes, and developments and lessons learnt from other organisations. The Board has taken particular note of the risks and potential impact and implications of the Government's proposals to cap housing benefit entitlements at the level of the Local Housing Allowance (LHA), which requires any additional top-up funding to be claimed from a ring-fenced fund to be administered by local authorities. The proposals are subject to consultation with a potential implementation date of April 2019. The Board has assessed the potential impact through receipt of updates to the financial forecasts and updated stress tests. Housing & Care 21 has continued to play an influential role with other sector representatives throughout the year, raising concerns to Government over the proposals to implement the LHA cap in the supported housing sector.



Formal reports confirming how Housing & Care 21 meets the HCA's regulatory standards on governance and viability, value for money, rent and the consumer standards have been considered by the Board as part of routine reporting on risks and assurance and as part of a specific assurance exercise. Assurance continues to be provided on reviewing compliance with aspects of law and the maintenance of the Assets and Liabilities register. The Board has been assured over compliance with key aspects of law, with the exception of historic Right to Work compliance, where two fines have been received from the Home Office for non-compliance with the Immigration Act 2016. In the year, the organisation has completed a full review of compliance for current staff with improved processes in place to track temporary work visas.

As well as attending formal Board meetings, Board members have also attended various staff and resident engagement events, visited Retirement Housing and Extra Care courts, visited other providers' properties, met with external stakeholders and attended conferences and training to gain a wider perspective of Housing & Care 21's position and performance.

The performance of the Board, committees and its members are appraised annually on both an individual and collective basis. A formal assessment of Board effectiveness was last carried out by Campbell Tickell in November 2015. The assessment concluded that the Board was effective and discharged its governance duties robustly. The report noted that 'there is a strong level of depth and diversity in the Board, and a threshold of proficiency and competence across the Board team. In our experience of the sector, this is remarkable, and the organisation can pride itself on a Board that is able to lead and direct'. Individual members are appraised by the Chair. The Chair is appraised by the Chair of the Governance Committee. As a result of the reviews, developments have taken place in the last year to further strengthen:

- The role of the Governance Committee
- Reporting on risk appetite, scenario planning, stress testing and KPI reporting

An external review of Board skills has taken place in preparation for recruitment of new Board members.

In addition to this independent assessment, an assessment of compliance with the organisations' Governance Handbook, which includes the NHF Code of Governance, is carried out by the Governance Committee. The Audit and Risk Management Committee also undertook an assessment of its own effectiveness. The results of these assessments were considered by Board.

The responsibilities of Board members are considered important by Housing & Care 21. Therefore the organisation pays its members not only for their time and commitment but the experience and support that they bring to the governance of the organisation. Payments made are benchmarked against the sector by the Governance Committee and are in line with sector averages.

As a result of the above activities and those included in this Report of the Board, the Board is able to confirm to the best of its knowledge, compliance with its adopted code of governance (NHF Code), and the regulatory requirements as established by the HCA including compliance with all aspects of law (with the exception of two cases of non compliance with the Immigration Act 2016).



## REPORT OF THE BOARD

### Responsibilities in respect of the Report of the Board and the Financial Statements

#### Board members' responsibilities

Board members are responsible for preparing the Report of the Board and the Financial Statements in accordance with applicable law and regulations.

Co-operative and Community Benefit Society law and social housing legislation require the Board members to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

In preparing these Financial Statements, the Board members are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards and the Statement of Recommended Practice: Accounting by registered social housing providers (2014) have been followed, subject to any material departures disclosed and explained in the Financial Statements
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Association will continue in business.

Board members are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Association's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Association and enable them to ensure that the Financial Statements comply with the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015. They are also responsible for safeguarding the assets of the Group and Association and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial Statements are published on the Association's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Association's website is the responsibility of the Board. Board members' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

All of the current directors have taken all the steps necessary to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

#### Responsibilities in respect of governance and internal control

The Group, which includes all subsidiaries, both regulated and unregulated entities, is committed to achieving best practice in all aspects of corporate governance and has adopted the NHF's Code of Governance as its Governance Framework. During the year ended 31 March 2017, the Group has assessed itself as being compliant with the Code of Governance.

The Board acknowledges that it has overall responsibility for establishing and maintaining the system of internal control and for reviewing its adequacy and effectiveness. This applies in respect of all companies and subsidiaries within the Group. While the Board is responsible for overall strategy and policy of Housing & Care 21, the day to day running of the Group is delegated to the Chief Executive and other executives.

The Board recognises that no system of internal control can provide absolute assurance or eliminate all risk. However, the system of internal control adopted by the Board is designed to manage risk and to provide reasonable, but not absolute, assurance that key business objectives and expected outcomes will be achieved.

The Board has agreed that the adopted framework of internal control is appropriate for the size, nature and complexity of the Group and is adequate and effective.

Over the year, the Board has recognised improvements in the strategic clarity of the Group and the internal control environment overall. The strategic risk profile saw a number of changes in the year as a result of the external environment, including the continued uncertainty of Government policy over the LHA Cap, internal decisions relating to merger discussions in June 2016 and the disposal of Home Care which was achieved by March 2017. The Group reduced its risk profile in the year in core areas of governance and viability with management controls and assurances in place to demonstrate improvements. The disposal of the Home Care business, while taken with regret in terms of the limiting effect this had on the scope of the organisation's activities, did have a positive influence on the organisation's risk profile in terms of viability and quality of services. The Board acknowledges that there are some specific areas where risk mitigation and controls need further development to manage risks within target levels (in line with their adopted risk appetite). The remaining business streams of Retirement Housing and Extra Care continued to develop their cultures of accountability and assurance and greater transparency.

Housing & Care 21 retained its top rating in respect of the HCA's regulatory judgements on governance and financial viability (G1 and V1), and continued to achieve positive CQC outcomes well above sector averages. The Board continues to be committed to ensuring that it maintains the highest ratings and to also be an exemplar of good practice.

#### Audit and Risk Management Committee

The Audit and Risk Management Committee meets with members of the Executive and Senior Management Teams, internal auditors and external auditors to review specific reporting and internal control matters in order to satisfy itself that systems are operating effectively and to ensure that the highest standards of effective governance are in place. The Committee, which met formally four times during the year, considered risk management, fraud, internal audit findings and implementation of recommendations, the external audit strategy and outcomes, the Group's Financial Statements, external and regulatory developments, health and safety and insurance.



**REPORT OF THE BOARD**

The Committee assessed itself as effective in meeting its obligations in the year as set out in its terms of reference.

Core objective:	Met by:
Effectiveness of internal control and risk	<ul style="list-style-type: none"> <li>• Approval of risk management policy</li> <li>• External review of risk management framework</li> <li>• Review and challenge of risk profile including review of progress with risk control actions</li> <li>• Receipt of additional assurance over key risks including care quality, cyber security, disaster recovery, LHA cap and new systems</li> <li>• Consideration of external factors through regular horizon scanning and receipt of sector updates</li> <li>• Escalation of significant risks to the Board</li> </ul>
Effectiveness of internal audit	<ul style="list-style-type: none"> <li>• Approval of the audit plan and its scope</li> <li>• Review of audit delivery and outcomes</li> <li>• Review of follow up and implementation by management</li> <li>• Review of effectiveness of service</li> <li>• Private meeting with Internal Audit</li> </ul>
Effectiveness of external audit	<ul style="list-style-type: none"> <li>• Approval of audit plan, scope and materiality</li> <li>• Review of independence and fee</li> <li>• Review and follow up of findings and misstatements</li> <li>• Review of effectiveness of service</li> <li>• Private meeting with External Audit</li> </ul>
Integrity of financial reporting	<ul style="list-style-type: none"> <li>• Approval of principal accounting policies and key financial judgements</li> <li>• Review of application of accounting policies and other sector developments</li> <li>• Review and input to drafting of Strategic Report and Audit Committee Report in the Group Financial Statements</li> <li>• Assess completeness of disclosures</li> <li>• Recommendations to the Board on going concern</li> </ul>
Effectiveness of anti-fraud and whistleblowing	<ul style="list-style-type: none"> <li>• Approval of policy</li> <li>• External review of fraud policies and procedures</li> <li>• Review and challenge of fraud risk profile</li> <li>• Review of progress with risk control actions</li> <li>• Review of register of fraud</li> </ul>

In reviewing the control environment of the Group, the Audit and Risk Management Committee and the Board are satisfied that the overall framework for internal control is adequate and effective. It has been recognised that there have been improvements in the systems of governance and internal control arising from the findings of internal auditors, and from the change in organisational risk profile. Where weaknesses have been found, action is being taken to close control deficiencies. The Audit and Risk Management Committee and the Board however recognise that they cannot be complacent in the further progress achieved during 2016/17 and recognises that there are mixed levels of performance operationally, and strategic risks which continue to require management.

Information on core elements of the internal control and assurance framework including risk management which supports the Board's assessment is detailed in further sections below.

**Governance Committee**

The Group's Governance Committee's responsibilities include reviewing compliance with good governance principles along with reviewing and approving nominations and remuneration. As a result of the independent review of governance in 2015, the Committee reconfirmed its objectives and commissioned a review to support Board succession planning.

The committee has met its core objectives during the year.

Core objective:	Met by:
Effective Board governance	<ul style="list-style-type: none"> <li>• Review and approval of Governance Handbook</li> <li>• Review of compliance with governance standards</li> <li>• Consideration of governance review outcomes and actions</li> </ul>
Review and approval of nominations	<ul style="list-style-type: none"> <li>• Reviewing and assessing the appropriateness of the structure, size, composition, skills, knowledge and experience of the Board</li> <li>• Reviewing Board members' appraisal processes</li> <li>• External review of the skills of the Board, both individually and collectively</li> <li>• Consideration of succession planning</li> </ul>
Review of remuneration	<ul style="list-style-type: none"> <li>• Determining and agreeing with the Board the policy for the remuneration of the Chair and non-executive directors and also for the Chief Executive.</li> </ul>



## REPORT OF THE BOARD

**Core elements of Housing & Care 21's Internal Control and Assurance Framework:***Risk management*

The management of risk is acknowledged as being fundamentally important to Housing & Care 21. The Board as a whole, including the Audit and Risk Management Committee members, considers the nature and extent of the risk management framework to be effective. The risk profile overall is considered acceptable to the achievement of organisational objectives. However there are a limited number of individual risks which require further management attention for them to be considered to be managed within the Board's risk appetite.

The risks of not meeting organisational objectives are continually assessed to measure their significance, and required action. Regular risk management reporting takes place to the Audit and Risk Management Committee and Board. The Group has a well-developed risk management strategy and framework in place, which includes:

- The process by which we identify and manage risks and opportunities, which sets out responsibilities for the Board, Executive Directors and Senior Management Team
- Risk appetite levels for each risk category and the organisation overall
- Documentation of risk maps, with controls and actions needed to manage the risks
- Additional consideration of risks in the context of the changing external environment through horizon scanning.

The risk framework was last externally assessed in 2016/17, and considered as being effective and reflective of good practice. The risk framework includes the documentation of risk appetite, risk triggers, and assurance gained from performance reporting.

The risk management process begins with each function and business stream identifying risks. The risks are assessed taking into account the potential impact and likelihood of the risk occurring and key mitigations in place. The level of current mitigation is reviewed against the Board's risk appetite to determine whether further mitigation is required. The most significant risks from each function and business stream are reviewed as part of the corporate risk review which takes place quarterly. Each risk area has mitigating controls, policies and procedures and action plans, the aim being to reduce all risks to the level of the Board's stated risk appetite wherever possible. The Group formally reviews progress in implementing risk mitigation plans and also completes horizon scanning for new risks. The risks are reviewed in detail by the Head of Internal Audit and Risk, Senior Management Team and Executives. The Corporate Risk Register is considered by the Audit and Risk Management Committee at each meeting, and at least twice a year by the Board. For areas of significant risk and for risks where there has been limited improvement, the Audit and Risk Management Committee requires separate reporting, which is also escalated to the Board for further review if necessary.

The principal risks facing Housing & Care 21 are similar to those facing the sector as a whole and influenced by external factors such as Government policy. There are some specific areas where, by nature of its focus on older persons, the Group has been shielded from certain impacts of welfare reform. However, we remain vigilant and build in contingency and efficiency improvements to our plans to allow for the more challenging environment. The 1% decrease in rents which applied to the sector generally in 2016 affects our properties from April 2017. Our business plan is rigorously stress-tested and shows considerable headroom.

The key risk areas and controls that we consider fall into the following broad headings:

- 1) Government policy, in particular the future implementation of the LHA Cap and funding of care for older people
- 2) Governance, including the external environment, reputation and regulatory changes
- 3) Internal effectiveness – strategy development for each of the business streams, IT systems and processes, change management, internal control environment, financial viability including budgetary control and treasury management. We are also planning a major improvement in our core housing systems and processes which involves a significant project with impacts across the organisation. Independent assurance has been commissioned to support the project
- 4) Customer facing – demand for services and properties, and care quality
- 5) Staff – recruitment and retention



While we have made considerable progress in addressing risks and have effective mitigation in place for most risks, there are a limited number of areas where we need to do more work. Our risk management focus is in the following principal areas:

- Mitigating the risk of the LHA cap which could be introduced in 2019 through influencing Government policy
- Managing the operational risk of the systems and process improvements currently underway
- Further developing the culture of internal control and accountability in the devolved model while ensuring excellent service and quality to our customers and highest levels of staff satisfaction

Housing & Care 21 also incorporates risk management into a range of day to day operational activities. These include:

- Internal audit using a risk-based approach to the audit programme, based on risk maps, inherent risks and outcomes of performance reports
- Investment and Resources Group approving new business and developments, which are based on pre-agreed hurdle rates
- Sensitivity analysis over key areas of risk and uncertainty built into our financial forecasts, including multiple stress scenarios

- Regular reviews of operational performance in terms of assets and service quality
- Robust budgetary control, monitoring and reporting
- Setting of Group policies in compliance with legislation and regulatory requirements
- A Programme Board overseeing the formal governance for key projects
- Business continuity plans for all office and operational sites
- Information security, data protection and disaster recovery arrangements, along with the formal review of information governance processes and issues within the Information Governance Steering Group
- Robust employment procedures and the commitment to train, develop and appraise our employees
- Scanning of the housing and care environment and reviewing the impact on the Group.

*Assurance statements*

In addition to the above risk management practices, members of the Senior Management Team provide individual assurance statements on an annual basis. The statements identify risks and areas of concern from an individual operational perspective, and provide information on how identified risks are being managed. The statements also provide information on compliance with key aspects of law and specific responsibilities relating to organisational assets and liabilities. A summary of the statements is provided to the Audit and Risk Management Committee and the Board to enable them to triangulate both performance and assurance information.

As at the end of the year, the Senior Management Team collectively provided substantial assurance that there had been improvements in the management of risks. The actions to manage those significant unmitigated risks arising from the exercise are incorporated into departmental business plans and those of a strategic nature incorporated into the corporate risk map.

Positive assurance was provided as part of this assurance process over risk, compliance with law and regulation. As a result, the Board take assurance from this process.

## REPORT OF THE BOARD

*Internal audit*

Housing & Care 21 has an internal audit function that is managed in-house by the Head of Internal Audit and Risk, who reports to the Chief Executive. The in-house team is supported by a third party provider commissioned for specialist areas and where sector benchmarking is advantageous. The internal audit function also delivers operational audits which assess compliance with quality aspects of care management and delivery based on both Housing & Care 21's quality standards and those of the CQC. The function operates independently of management and has no operational responsibility other than for anti-fraud, whistle-blowing, business continuity and information governance.

An annual assessment of the effectiveness of the internal audit function is carried out. In 2016/17 the internal assessment included a review of compliance with internal audit standards and considered formal feedback from stakeholders (both staff and Audit and Risk Management Committee Members). In addition, positive assurance was provided by a third party on specific aspects of the function. The internal audit function was found to be effective in delivering robust assurance.

The programme of internal audit work focuses on reviewing objectively the policies, procedures and effectiveness of internal controls within core operational areas and areas of risk. During 2016/17, a range of systems were audited covering operational, corporate and financial areas. The audit findings in the year identified a balance of areas with strong levels of assurance and controls and others requiring further strengthening and attention.

The progress and outcomes of internal audit work is reported to the Executive, the Senior Management Team and Audit and Risk Management Committee. This includes reporting on implementation of recommendations. This year, fewer high priority recommendations were raised, reflecting continued improvements in internal control. During the year, management continued to implement recommendations, and of those implemented, 95% were implemented within agreed timescales. The outstanding actions have been confirmed by management as being progressed.

As a result of the specific internal audit work completed in the year and a review of key aspects of governance and risk management, the function concluded that there was an adequate and effective system of internal control in place in the year. Although there have been a small number of internal audit outcomes reported as providing limited assurance, these have related to specific areas which are not material to achieving organisational aims and objectives. There has been specific follow up for each area. Management has provided assurance that recommendations have been implemented, thereby improving the control environment in these specific areas. The programme of formal audit work and activity in a critical friend role continues to reflect the commitment that has been made to improving controls and assurance mechanisms.

*Anti fraud, corruption and bribery*

As part of its system of internal control, the Group has an approved anti-fraud and bribery strategy and policy in place. The policy defines fraud, and the strategy covers prevention and detection arrangements, and the process for reporting and responding to suspected fraud. The Group is committed to act at all times with honesty and integrity in safeguarding the resources for which it is responsible. It expects the same from its employees and contractors and seeks appropriate redress when subjected to fraud. This includes recovering losses and passing details of wrongdoing to the police.

During the year the Group was subject to a low number of low value frauds which were identified as a result of whistle-blowing and management review of system controls. Formal disciplinary action against the employees concerned took place, with losses recovered where practicable. In addition, those frauds which are considered to be perpetrated externally are referred to Action Fraud.

Although no system can fully protect against fraud, the Group is aware of the importance of effective fraud awareness and anti-fraud controls. As such the Group has developed mandatory training for all staff.

The Group maintains a register of all incidents of fraud and attempted fraud. The Audit and Risk Management Committee receives a report at each meeting detailing the incidents, the action taken, and improvements in controls as a result of investigations.

The Board considers the arrangements to be appropriate and effective for the size and nature of the organisation.

*Financial, operational and governance reporting*

The regular reports to the Executive Team and the Board are a fundamental element of the control framework and provide assurance over the achievement of the Group's aims and objectives and compliance with internal and external standards. In 2016/17 reporting included:

- Actual and forecast reports of operating budgets and longer terms business plans
- Monthly budget reviews and detailed quarterly reviews of expected budget outturns with budget holders. The robustness of budget management and reviewing contract models provided effective budget outcomes in the year, with agreed surpluses achieved
- Positive assurance over treasury and covenant compliance
- Reporting of operational performance against key performance indicators throughout the year. Performance is reported on a range of indicators which cover housing and care management, repairs and maintenance, customer satisfaction and complaints

*Health and safety*

The Board acknowledges its duty of care to all employees, service users and residents in respect of all matters relating to health and safety (including fire safety) and, as such, has approved detailed health and safety policies and procedures. Dedicated health and safety managers manage a devolved framework for health and safety management and regularly review the policies and procedures, supervise and review risk assessments, and manage key actions arising from the risk assessments.

In addition, to promote a health and safety culture, a Health and Safety Forum is in place comprising staff, service users and resident representatives, chaired by the Chief Operating Officer. This group, which continues to meet quarterly, reviews all key health and safety initiatives, policies and procedures and the way in which they will be communicated. Additional briefings and communications through newsletters, email bulletins and the intranet also continue to take place to raise awareness.

Despite the commitment to health and safety, in a Group of the size, nature and complexity of Housing & Care 21, a number of incidents can still occur. When this happens it is important that they are handled sensitively and treated as an opportunity for learning and improvement.

During 2016/17 Housing & Care 21 practices remained appropriate and robust with reporting of any incidents to the Board.

## REPORT OF THE BOARD

*Care quality and safeguarding*

The Group has established policies and procedures for ensuring care quality, and for raising and reporting of safeguarding incidents (including perceived financial, physical or sexual abuse, neglect, mental health issues and medication issues), and their onward reporting to the management of Housing & Care 21 or third parties such as local authorities. In the year, this procedure was enhanced through the development of software which improves the workflow of incidents and onward management reporting.

Registered managers on our Extra Care courts are fully accountable for ensuring care quality and the safeguarding of residents.

To measure compliance with quality standards, regular auditing of Extra Care sites is undertaken by the internal audit function, with managers completing self assessments using a management review toolkit. Formal reporting highlights the outcomes of audits, areas of non-compliance and themes arising and enables the Group to focus on areas for attention and improvement.

Reporting of service quality takes place to the Executive team, Audit and Risk Management Committee and the Board. During the year, there were improvements in the overall internal audit outcomes, reflecting the level of continued management effort to ensure care quality. At the year end March 2017, CQC had rated 85% of our Extra Care services as Good. No services were rated as non-compliant overall. Housing & Care 21's target is for 100% of services to be rated Good or above.

Where services are deemed to require improvement, either by the CQC, local authority partners or internally, action plans to improve services are put into place and their implementation reviewed by management, along with further follow up by internal audit. Themes arising are reviewed by the quality and training manager and progressed through developments in policy and procedure, training and or supervision, along with further investment in resources reflecting the ongoing commitment to ensuring the Group achieves the highest quality standards.

*Complaints*

The Group has a formal complaints procedure through which customers can express their dissatisfaction with services, and through which they can also raise complaints. Each complaint was logged, investigated and managed on an individual basis using a one stage process. Reporting on the nature of complaints, by region and by department, takes place to the Executive team and the Board.

The one stage process, using the principles of responding right first time, was introduced during 2015/16 and is now embedded and considered to be effective with improvements in customer outcomes and process efficiencies.

*Staff engagement*

The Group recognises that its staff are its most valuable asset in delivering services and implementing internal controls. Staff engagement processes and staff satisfaction are considered important and the organisation invests in this process in a variety of ways:

- Informing staff through staff newsletters and also regular news bulletins on the intranet
- Holding a number of staff conferences at regional locations. The outcomes of these are collated and improvement plans developed
- Recognition of staff through an awards ceremony held at each staff conference
- Holding department conferences and regular team meetings
- Engaging with the wider leadership team to shape and develop the organisation's strategy
- Obtaining information on staff satisfaction through an regular quarterly survey
- Valuing individual performance through regular performance review and appraisal processes
- Providing opportunities for training and development through both mandatory and elective training
- Commitment to obtaining Investors In People Gold standard in 2018, having achieved a Silver award in 2015/16
- Implementing a new reward strategy which includes developments in staff recognition

*Equal opportunities*

The Group is committed to equal opportunities and has in place an Equality and Diversity Policy. We work to ensure that everyone has equal access to opportunities and that the attributes, talents and skills of our workforce reflect those of the communities we serve through:

- Recognising that employees have the right to work in a supportive and safe environment
- Promoting an environment where standards of conduct are of the highest level and to ensure that no one is harassed, bullied or victimised
- Promoting a supportive, accessible and open working environment where all employees have the opportunity to reach their potential

The organisation has plans in place to refocus the equality and diversity agenda, raising awareness of all aspects of diversity in the workplace.

*Customer involvement*

The Board considers the views and perspectives of residents and customers when reviewing and improving services. A key mechanism for us to engage with residents is through our resident engagement database, 'Viewpoint' (formerly known as Partner Shop). This year the database was rebranded to improve uptake and understanding. Viewpoint allows for engagement with a wide group of residents with a targeted approach to involvement. During the year over 250 customers were involved in improvement groups and other forms of consultation, including workshops about Government proposals to supported housing funding. Residents also helped to shape and make improvements to the service charge process. 785 customers are available for consultation through Viewpoint.

In addition to these groups, Housing & Care 21 ran 16 customer conferences and events around the country to obtain feedback on services provided and to give our customers the opportunity to shape the organisation's future. A specific conference was also held for our leasehold customers. As part of these events we engaged with over 700 customers. These conferences provide valuable insights into the views and satisfaction of customers.

Customers are also members of our Complaints Panel and have reviewed complaints, responses and satisfaction levels.

By order of the Board



Paul Hutton  
Secretary  
21 July 2017

## STRATEGIC REPORT

## Overview of the year

The Group has continued to improve on its year-on-year financial performance. After adjusting for depreciation, amortisation and exceptional items, this is the fifth successive year that both operating surplus and margin have shown year-on-year improvement.

Housing & Care 21 Group £'m	2012/13 (pre-FRS 102)	2013/14 (pre-FRS 102)	2014/15 (FRS 102)	2015/16 (FRS 102)	2016/17 (FRS 102)
Turnover	222.0	218.7	203.7	219.7	202.4
Operating costs	(211.2)	(200.5)	(176.5)	(193.1)	(170.1)
<b>Operating surplus</b>	<b>10.8</b>	<b>18.2</b>	<b>27.2</b>	<b>26.6</b>	<b>32.3</b>
Adding back: depreciation, amortisation & exceptional items	32.9	29.2	23.3	32.3	28.2
<b>Adjusted operating surplus</b>	<b>43.7</b>	<b>47.4</b>	<b>50.5</b>	<b>58.9</b>	<b>60.5</b>
<i>Adjusted operating margin</i>	20%	22%	25%	27%	30%

The trend shows the Group's financial performance going from strength to strength, averaging an 8.5% increase in adjusted operating surplus each year. The year-on-year improvement has also been delivered while the Group has divested from non-core activities over the last few years, the largest being the disposal of its healthcare and nursing businesses in 2013/14.

The rationalisation of the Group's diverse activities in order to focus on its core purpose was completed in 2016/17 when the Group took the decision to dispose of its Home Care business as a going concern to another provider. By 31 March 2017, all branches had successfully been transferred with no disruption to service. The impact on the Group moving forward will be the loss of around £30m of revenue per annum.

However, the impact on surpluses is expected to be marginal, if not favourable.

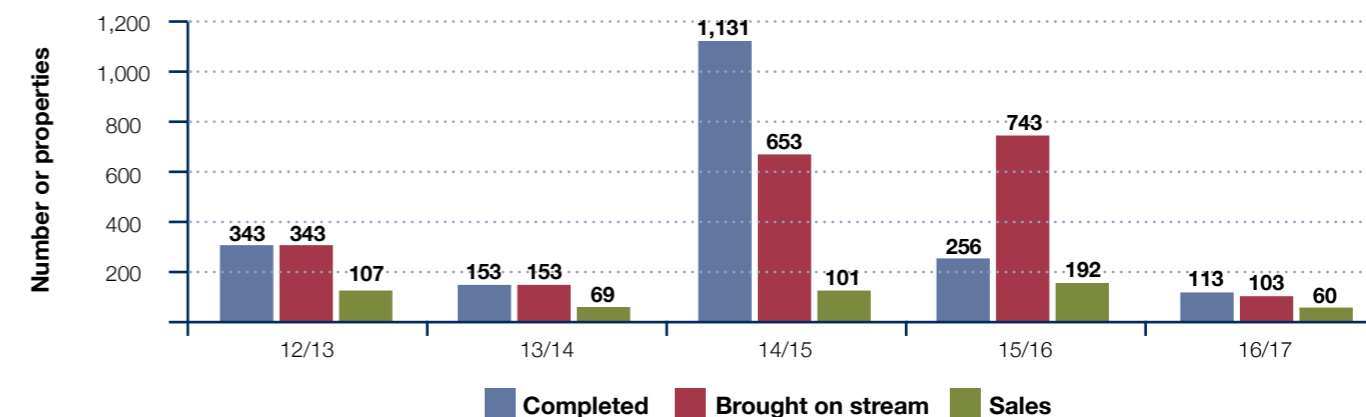
The decision to dispose of Home Care now allows for the Group to dedicate all of its senior management time and resources to its two core activities: Retirement Housing and Extra Care.

Following a period of high development activity, 2016/17 was a relatively quiet period for development. As such, the Group has not had a significant number of new property completions or sales compared to previous years. The Group completed 113 new properties (2016: 256) and sold 60 shared ownership properties in the year (2016: 192), of which 48 were built in the previous year. However, the contribution of all the new properties brought on stream in previous

years has continued to have a significant impact on its financial performance. Many of the new properties completed were brought on stream part way through 2015/16, which means that 2016/17 included the full year impact of having the properties in operation. This has contributed around £3m additional operating surplus for the year.

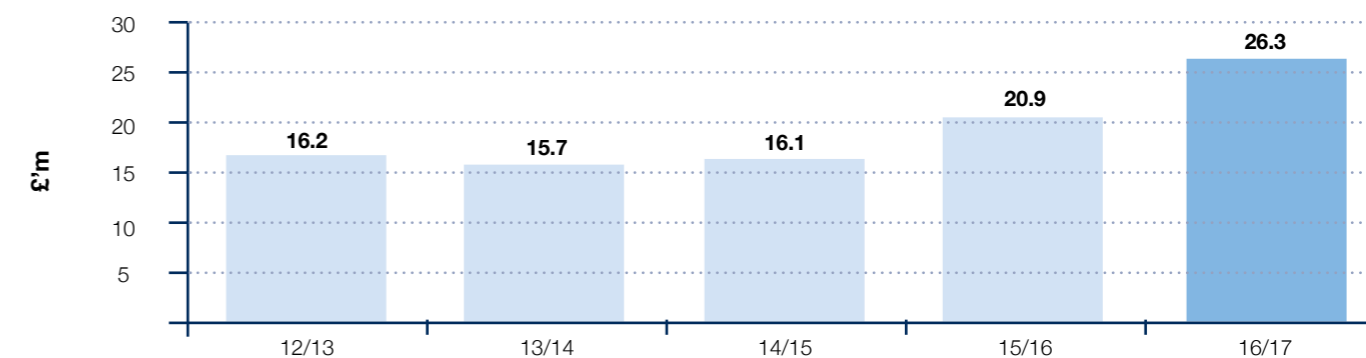
The Group's ambition as outlined in the Strategic Plan 2021 is to increase and maintain a higher ongoing level of development activity in the future, though the lead time on securing sites and developing them means it will be several years before these units come into service.

## Development completions



In 2015/16, the Group took the decision to significantly increase the expenditure in its Stock Investment Programme (SIP) from £16m per annum to around £27m per annum for five years. 2016/17 was the first year of this enhanced level of investment. The investment will ensure that the demand and cash generating potential of its properties is maintained into the medium and longer term.

## Capital investment in existing properties



As detailed in last year's report, the Group, through its separate subsidiary company (ORHP), successfully achieved the Oldham PFI rectification programme ahead of schedule in May 2016 with all major milestones delivered along the way. The contract is now out of the special Deed of Variation arrangements and back to normal day-to-day operations as governed by the original contract. Furthermore, the delivery of services to the residents of Oldham continues to a high standard.

## STRATEGIC REPORT

## Looking ahead

The Group has recently published its Strategic Priorities. This sets out the Group's strategic ambitions and the business priorities that it aims to achieve by 2021. The Strategic Priorities draw together key facets of work that have been ongoing in order to deliver to the Group's core purpose of providing contemporary housing and care services for older people of modest means. The plan focuses on investing in:

- Providing more homes
- Improving the quality of our existing properties
- The quality of responsiveness of our services
- Our people and potential
- Systems and technology
- Value for money
- Innovation and influence

## Providing more homes

The Group plans to develop 2,100 new Extra Care and 210 new Retirement Housing properties by 2021. After 2021, the Group's long term development appetite is to develop around 800 new properties each year. The Board believes that this ambitious target is achievable given the considerable capacities that the Group still has in regard to covenant headrooms, borrowing capacity and security availability.

Of the 2,310 planned developments, the Group has already delivered 113 new properties in 2016/17 and has 266 (2016: 190) currently in development. The Group was successful in the HCA's 2016-21 Shared Ownership and Affordable Homes Programme (SOAHP) funding bid for 1,050 properties, and will continue to seek further funding under the Continuous Market Engagement (CME) programme.

In addition to the development aspirations, the Group will actively consider and pursue opportunities to acquire existing good quality Extra Care and Retirement Housing properties from other providers. The Group completed the purchase of 563 properties from Your Housing Group in June 2017. The Group remains proactive in delivering its growth priority when appropriate opportunities arise.

## Improving the quality of our existing properties

Many of the Group's Retirement Housing properties were built in the 1960s and 1970s and require further investment in order to ensure their cash generating potential does not deteriorate from obsolescence and diminishing demand. The Board has committed to spending £27m each year for five years from 2016/17 onwards to ensure that our properties remain a positive choice for older people. The Group invested £26.3m (2016: £20.9m) in its existing properties in the year, reflecting the first year of the five year programme.

At the end of the five year period, the Group's properties will all be in compliance with its internally set property standards which are well in excess of the Decent Homes standards. Some of the key standards set are:

- All kitchens and bathrooms to be no more than 20 years old
- All courts to have had a design-led make-over / decoration within 7 years
- All courts to have EPC rating of at least C.

The Group's courts all have a published five year investment plan which enables residents to see and monitor when works are planned to be carried out. After 2021, the Group is committed to continuing investment in its property estate in order to ensure there is a continual cycle of investment and renewal.

The Group continues to ensure that this investment can always be funded from its operating cash flows leaving any borrowing requirements for new developments only – which demonstrates the sound financial management principles that the Group currently operates under, and is expected to continue operating in the future.

## Quality and responsiveness of services

The Group has two very distinct dynamics in regard to the services it provides: housing and care.

In respect of the housing offer, the key distinguishing factor that sets the Group apart in the sector is its commitment to the court manager service. This service is the cornerstone in ensuring that we attain high resident satisfaction (targeted at 95%) and low voids (of less than 1.5%). Because our court managers work in such close proximity to our courts and residents, they are ideally placed to ensure we receive value for money from repairs, effectively manage our arrears and ensure minimal rent losses from empty properties.

While the Group has exited the home care sector, it is still a provider of social care services through its Extra Care business. The Group's core priorities here are to ensure that all services are rated at least good by the CQC and that care staff turnover is no greater than 25%. The financial considerations that underpin the achievement of these priorities are to ensure it enters into contracts that are financially viable and sufficient to pay for a safe service, particularly in the context of cost pressures associated with the National Living Wage (NLW). Over 82% (2016: 84%) of the £27m revenue generated from care services is from local authority packages, which means that assessing contracts carefully before entering into them will continue to be a key consideration for the Group.

## People and potential

The Group is subject to the Apprenticeship Levy from 2017/18 onwards. However, rather than viewing this cost as a simple tax, the Group has embraced the opportunities that this affords it in regard to further investing in staff training and development. The levy adds around £0.3m of cost to the Group which it intends to utilise by making sure all Housing Managers are trained to Chartered Institute of Housing (CIH) Level 3 as a minimum and all Registered Managers in Extra Care have a Health and Social Care Level 5 qualification.

Investment in the Group's staff goes hand in hand with ensuring its priority of investing in the quality and responsive of its services.

## Systems and technology

In order to help facilitate the delivery of the Strategic Priorities, particularly better quality services, the Group recognises that it needs to invest further in its housing systems and technology.

As a consequence, the Group has recently embarked on a major technology refresh and business process review project focusing on its housing management systems. The implementation of new technology will facilitate devolved and streamlined ways of working. This includes a refreshed housing and finance management system, mobile working devices for court managers that enable face-to-face customer engagement, enhanced emergency call systems using digital connectivity and online customer portal enabling self-service functionality.

The Group has committed to spending up to £5m over the next few years in order to deliver these benefits. This programme is a significant change management programme with dedicated resource and significant involvement across the organisation.

## Innovation and influence

The biggest challenge facing the Group is the potential LHA cap, which could cap the level of Housing Benefit (HB) entitlement for residents to the LHA level from April 2019 onwards. The cap is expected to be applicable to not only the rent but also the service charge. As a result, this proposed policy could have a significant impact because, the cost of enhanced support services that the Group's residents pay for through their service charge is in excess of the LHA in a significant number of cases.

The LHA cap does not impact on the rents and services that the Group is able to charge, but the proposal does impact on residents' ability to pay them if their capped HB is inadequate to cover the charges. However, the proposed changes to HB are expected to be offset by the creation of a new ring-fenced top-up fund for local authorities to use on support services. Given the very close relationships and collaborative links the Group has with local authorities, we are confident that we are well placed to influence key stakeholders and decision-makers at local authority level for the benefit of our residents.

There is still significant uncertainty as to whether the proposals will be implemented as currently drafted and how the replacement top-up funding will be accessed. The Group is committed to utilising its specialist knowledge and experience in housing and care for older people to influence policy makers and Government to ensure the issues and concerns affecting our residents are promoted and advanced. The Group is a sponsor of the All Party Parliamentary Group on Housing and Care for Older People and regularly meets with key ministers in order to lobby for a more workable funding solution for supported housing. The Group is regarded as a leading voice in the field of older peoples' housing and care.





## STRATEGIC REPORT

## Business performance

The financial results are summarised as follows:

£'m	Turnover		Surplus	
	2017	2016	2017	2016
Retirement Housing	79.0	78.0	22.8	33.8
Extra Care lettings	43.0	38.2	13.7	12.6
PFI / PPP lettings	18.7	18.4	11.3	6.6
Corporate	0.8	1.4	(16.9)	(20.3)
Social housing lettings	141.5	136.0	30.9	32.7
Sale of development properties	5.9	20.3	1.1	5.3
Support charge	2.9	2.6	0.1	0.0
<b>Social housing activities</b>	<b>150.3</b>	<b>158.9</b>	<b>32.1</b>	<b>38.0</b>
Extra Care services	27.2	26.9	0.9	1.1
PFI / PPP care services	4.8	4.7	0.6	0.5
Other	-	-	0.2	(8.1)
Home Care services (discontinued)	19.9	29.2	(1.5)	(4.8)
<b>Non-social housing activities</b>	<b>51.9</b>	<b>60.8</b>	<b>0.2</b>	<b>(11.3)</b>
<b>Operating surplus</b>			<b>32.3</b>	<b>26.6</b>
Sale of other assets			0.6	1.5
Sale of subsidiaries			-	(1.6)
Interest receivable			7.3	7.2
Interest payable			(23.4)	(23.1)
Fair value movement on swaps			0.2	1.0
Taxation			(0.0)	(0.0)
<b>Surplus for the year</b>			<b>17.0</b>	<b>11.7</b>

### Retirement Housing

Although Retirement Housing has had little growth in terms of property numbers over the past few years, it still represents the Group's largest service in all aspects (revenue, surpluses, number of properties).

Turnover from the service has increased by £1m to £79m (2016: £78m) although operating surplus has decreased by £11m to £22.8m (2016: £33.8m). The increase in turnover largely reflects the rent increase applicable to the properties.

The decrease in operating surplus has been caused by higher depreciation charges (£18.5m in 2016/17 vs £10.7m in 2015/16) as a result of the enhanced five year stock investment programme that was implemented in the year. The enhanced programme aims to renew components within properties over a shorter life cycle, resulting in a higher write-off of the old components i.e. accelerated depreciation. In addition, the Retirement Housing division has taken a £3.5m impairment charge in the year (2016: £nil) triggered by the 1% rent decrease that is applicable for the first time in April 2017 for 3 years.

Therefore, the decrease in Retirement Housing's operating surplus has been driven by higher 'non-cash' accounting adjustments driven predominately by the enhanced investment programme. The underlying cash generating capacity of the division remains strong.

The future challenges facing the service are both internal and external. The Government's policy to decrease rents by 1% on sheltered accommodation for three years from April 2017 to April 2019 will impact the financial performance of the service, as well as the potential impact of the LHA cap.

The age and nature of the property portfolio reflects a key internal challenge. The Group's Retirement Housing properties were subject to the majority of the enhanced capital investment in the year of £26.3m (2016: £20.9m). The Group would envisage this additional investment to result in lower voids and ongoing maintenance costs which would counter the risks associated with the rent decreases and potential LHA cap.

The decisions as to how the investment will be allocated are driven by the Court Investment Plans. This will ensure that the Retirement Housing estate remains a positive choice for residents and continues to secure good demand.

### Extra Care

The Extra Care service is designed to be an integrated service for housing and care needs in a single location. They are managed as a single unified service although the housing service and care service are split in the Financial Statements in accordance with reporting requirements.

Extra Care lettings turnover has increased to £43m (2016: £38.2m) and operating surplus to £13.7m in the year (2016: £12.6m). This represents growth of over 12% in turnover and 4% in operating surpluses from the previous year. The majority of the growth, £4.4m of turnover, is a result of the full year impact of the new properties commissioned in 2015/16. The increase in operating surplus is lower than the increase in turnover for the same reasons cited for Retirement Housing: higher depreciation (£8.2m in 2016/17 vs £6.6m in 2015.16) as a result of the enhanced investment programme over shorter life-cycles and an impairment charge triggered by the April 2017 rent decrease of £0.5m (2016: £nil).

The Group's strategy has been to develop in the Extra Care field over the last two decades and continues to be the bulk of its growth strategy in the future. The Group believes that the Extra Care model best serves the needs, through an integrated service, of an ageing population and is a better alternative to the more costly residential care option. As a result, the age profile of the Group's Extra Care estate is virtually all less than 20 years old, meaning that the investment challenges

which are facing Retirement Housing are less relevant to Extra Care in the short term. The issue in regard to the potential LHA cap is likely to be disproportionately greater in Extra Care where the rents and service charges are higher. However, while the potential impact of the LHA may well be higher than in Retirement Housing, the likelihood is considered much less. This is because the closer commissioning and collaborative relationships with local authorities is anticipated to give Extra Care much greater prominence when accessing the supported top-up funding budgets. The Group is confident that the benefits generated by Extra Care are well understood by local authorities who will continue to commission and appropriately fund Extra Care into the future.

The care services within Extra Care represent 39% of total Extra Care turnover (2016: 41%), but only 6% of operating surpluses (2016: 8%). However, the integrated nature of Extra Care means that it forms a cornerstone of the Group's service offer. There has been a marginal growth in turnover of £0.3m to £27.2m, but a marginal £0.2m decrease in operating surplus to £0.9m, largely driven by the impact of the National Living Wage (NLW).

Growth in care services within Extra Care will come mainly from our ambitious development plans. Growth from existing services will be limited because there are a finite number of service users within the boundaries of our courts that the Group can deliver to. The challenges of NLW impacts on the care services in Extra Care, and we will strive to minimise the impact on margins and surpluses by seeking rate increases from commissioners and service users as appropriate.

### PFI and PPP

The Group continues to operate two PFI contracts in Kent and Oldham and one PPP contract in Walsall. They are all predominantly housing related services, although there is a care element at Walsall. All contracts are less than a third of the way through their respective terms and operate in accordance with the Group's expectations. We are particularly pleased to report that the Oldham PFI contract achieved its key rectification milestones ahead of schedule.

The nature of PFI and PPP contracts means that there is a degree of certainty and protection from the challenges facing Retirement Housing and Extra Care. In particular, there is little uncertainty in regard to the unitary charge income receivable from the relevant local authorities, meaning that the Group anticipates continuing making a viable return so long as it continues to control its costs in running the services.

The Group does collect and take the benefit of the rents at Kent and Walsall as part of the project terms. However, the rent decrease legislation specifically excludes PFI accommodation such as those in Kent.

### Home Care

The Group's decision to dispose of the Home Care business was because it was felt that the challenging financial and operating environment was providing an undue distraction to the core activities of Retirement Housing and Extra Care. All services, representing around 32,000 hours each week (2016: 34,000 hours), were transferred to another provider as a going concern. The sale of the business generated sales proceeds of £1.7m (2016: £nil) and a surplus on sale of £0.1m (2016: £nil). The cost of sale of £1.6m is predominantly exit costs associated with office closures, redundancies of management staff and also a provision for outstanding debtor balances associated with the business.

In addition to allowing for a greater focus on Retirement Housing and Extra Care, the exit from the home care market has eliminated or reduced some significant future business risks and challenges associated with the activity for the Group. The most significant ones relate to care quality and NLW. Care quality is still a major consideration for the Group in respect of its care services in Extra Care. However, the delivery of quality care in a single location and in the presence of numerous other supervising staff is considered inherently less risky than in home care where it is undertaken out in the community. The delivery of care in the community, which can involve considerable travel time, also makes compliance with NLW much more challenging as opposed to in Extra Care where work location is at a single court.

STRATEGIC REPORT

Other social housing activities

Other social housing activities predominantly relates to first tranche shared ownership and outright sales. 60 sales have been achieved in the year (2016: 192 properties) which has generated £6.0m (2016: £20.3m) of sales proceeds, all of which related to first tranche shared ownership sales (2016: £18.5m first tranche shared ownership; £1.8m outright sales) and £1.1m of surplus (2016: £4.9m first tranche shared ownership; £0.4m outright sales).

There were only 12 completed properties unsold at year end all of which have since either been sold or transferred to rent in the new financial year. Although the Group has never been reliant on the sales of properties to underpin its financial position or performance, the risk of sales not materialising has significantly reduced following the successful sales of so many properties resulting from the peak of completions in 2014/15. The number of properties available for sale over the next two financial years is significantly lower than the recent past.

Other activities

In 2015/16 the Group wrote off £8.3m of goodwill, predominantly in relation to its home care activities. There have been no such write-offs in 2016/17 and all goodwill has been written down to £nil on the Balance Sheet.

Corporate

Corporate costs are largely reported within social housing lettings activities, with £1.2m (2016: £1.5m) being allocated to Extra Care services and £1.3m (2016: £1.4m) to Home Care services. The costs represent the corporate departments (e.g. Finance, IT, HR, Asset Management) that support and underpin the operational service delivery activities of the business.

Costs have decreased to £16.9m in the year (within social housing lettings). The decrease is largely a result of the absence of any pension deficit charges in the current year (2016: £3.1m). In addition to this there has also been around £2.1m of savings in the year across a number of functions and departments.

Balance Sheet and net debt

The Group's net assets have increased by £14.5m to £637.8m (2016: £623.3m). The growth in assets is predominantly driven by £20.1m increases in cash reserves (2016: £10.3m increase), largely generated from operations. There have also been decreases in the level of debt liability that the Group owes as a result of contractual repayments.

The Group has considerable cash reserves of £69.5m at the year end (2016: £49.4m). Ordinarily the Group would make use of its excess cash to repay some of its debts. However, it is unable to do so without incurring early repayment charges and these funds will be required for the future development plan.

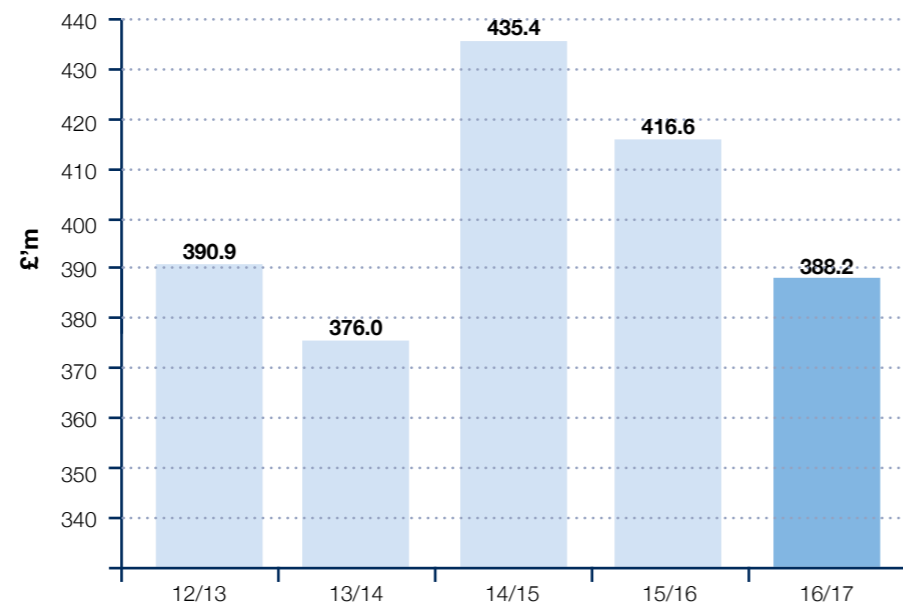
The Group's property assets ensure that there is a large pool of security for borrowings to fund development. A significant value of the Group's property estate is still available for use as security, which means that it is well placed to secure borrowing facilities for the purpose of continued development in the future. As the Group continues to develop, it expects further security to be created that unlocks yet further development capacity.

To support the development programme the Group has also since year end renegotiated and updated its banking covenant ratios for FRS 102. Specifically it has amended its gearing covenant to be based on a ratio of debt to housing property, which has freed up significant headroom to meet the Group's development aspirations.

Net debt peaked in 2014/15 at £435.4m as a result of borrowings which have been drawn down to fund the AHP1 programme that delivered the 1,131 properties in the same year. Since then, the net debt figure has been decreasing year-on-year to £388.2m at the year end. This has been caused by the cash generated from the property sales in the periods after the completion of the programme and from the strong operating cash flows that the Group delivers.

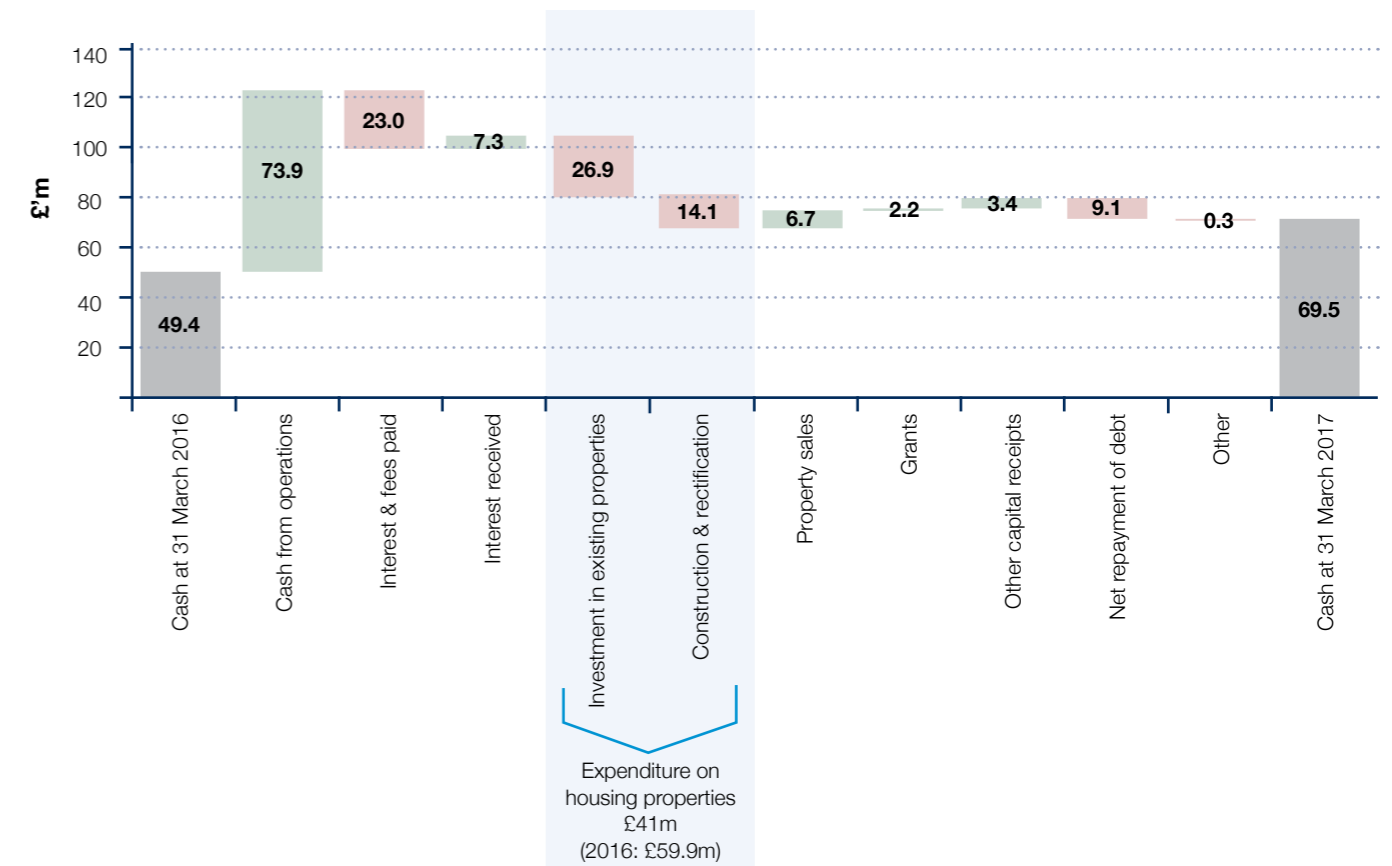
As the Group has already benefited from the cash from the sale of properties over the past 2 years, the future development programme will initially be funded by borrowings and cash reserves. Therefore, net debt is expected to increase from 2017/18 onwards. However, this will be in accordance with the Group's business plan. The Group will continue operating on a sound financial footing even when the development programme to 2021 becomes committed over the coming months and years.

Group net debt



Cash flow and treasury

The key movements in cash balances are as follows:



The Group's strong cash generation from trading operations of £73.9m (2016: £66m) has continued in the year and has been more than sufficient to cover the payment of interest of £23m (2016: £22.9m) and the investment, on a cash basis, in existing properties of £26.9m (2016: £19.3m). This demonstrates how the Group ensures that it generates sufficient cash from core operating activities to cover these key items of expenditure and investment. It demonstrates that the Group does not borrow in order to fund these items and only to invest in new development. Although this is not a formal policy of the Group, it is a key golden rule which ensures the Group continues to be viable and financially robust in the future.

Development expenditure has continued in the year with expenditure of £14.1m (2016: £35.6m) in regard to the 113 properties that were completed and the 266 properties that were under construction as at 31 March 2017. The funding of this construction has been underpinned by the cash generated from operating activities.

The Group's available facilities are as follows as at 31 March 2017:

£'m	Association	Subsidiaries	Group
Total facility available	399.3	129.8	529.1
Total drawn	329.3	129.8	459.1
Facility headroom	70.0	0.0	70.0

In order to support the delivery of 2,310 properties by 2021 the Group is in the process of ensuring that additional and replacement funding is in place. The Group has, since year end, secured a four year £70m revolver extension from Barclays in June 2017 and is currently in the process of putting in place further long term funding which it anticipates to be in place by the end of this financial year.

The Group ensures that developments are not committed to unless there is sufficient funding already secured and available.

STRATEGIC REPORT

The overall nature of the Group's loan book and financing arrangements is also very basic and simple. This means that the Group is not subject to onerous financing terms and is relatively sheltered from volatility in the capital markets. As an example, the Group has just four derivative swap instruments, three of which are embedded within the PFI contract terms, and it has no complex loans that would require them to be held at market value. It is the Group's policy that this will continue to be the case in the future.

The Group's debt and financing activities are managed by a centralised treasury function, which is overseen by the Chief Financial Officer. The treasury function ensures it operates within the parameters of a Board approved Treasury Management Policy. The Policy ensures appropriate management of certain key treasury risks. These include:

- Ensuing lenders' covenants remain within a set of 'shadow' limits (as opposed to the minimum lenders' requirement)
- Funding is available for at least 2 years ahead at any given time
- Speculative investments / options are not undertaken
- Interest rate risk is minimised.

**Creditor payment policy**

The Group agrees payment terms with its suppliers when it enters into binding contracts. It seeks to abide by these terms when it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions.

**Going concern**

After making enquiries, the Board of Housing & Care 21 has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Board obtains further assurance of the Group's financial viability through the annual budgeting, quarterly re-forecasting and long term business planning exercises. Within all these exercises, the Group assesses and stress tests the availability of funding, liquidity and compliance with lenders' covenants over at least a three year period. This ensures the Board has a continual and rolling process of reviewing and assessing the financial strength and viability of the Group.

For this reason the going concern basis has been adopted in these Financial Statements.

**Accounting policy changes**

Housing & Care 21 has not made any changes to its accounting policies in the current financial year. The key accounting policies are stated in the notes to the Financial Statements and have been consistently applied throughout the year in preparing these Financial Statements.

**Charitable and political gifts**

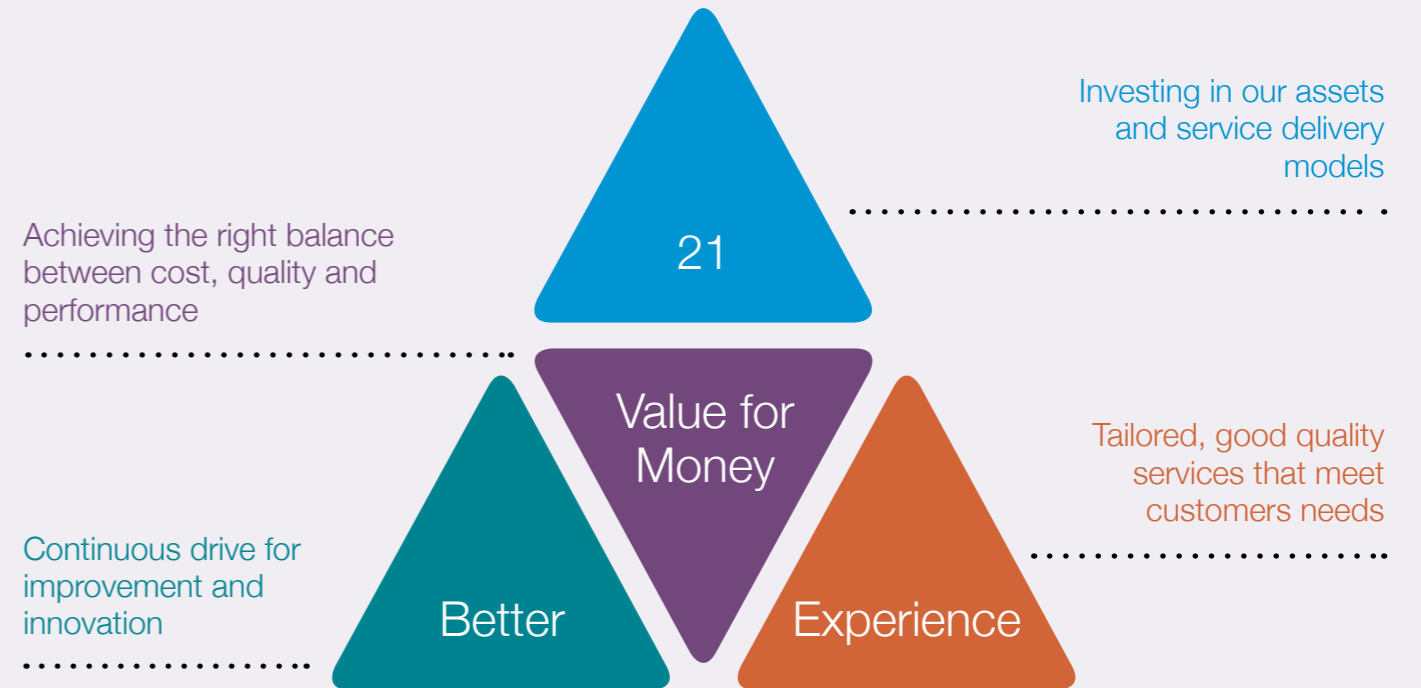
Housing & Care 21 did not directly make any charitable or political donations in the year (2016: £2,086 to Macmillan Cancer Support). However, the Group does support the work undertaken by staff and residents in their various charitable initiatives.

VALUE FOR MONEY

**Our Value for Money (VFM) approach**

At Housing & Care 21 VFM is about cost effectiveness, which is getting the right balance between cost, quality and performance. As well as taking a strategic approach to VFM, we aim to embed VFM within our day-to-day decision making and performance review processes. We recognise that VFM can be achieved at all levels and in all areas of the organisation and we continue to further embed a culture of continuous improvement throughout the organisation.

VFM is core to our three strategic principles of '21', 'Better' and 'Experience':



**21**

We are committed to providing a modern, forward-thinking 21st century service. This includes updating and modernising our existing housing, as well as developing new and innovative property designs and service models for the future.

**Better**

We will strive for continuous improvement and innovation in all that we do. We will never become complacent and will constantly challenge ourselves to do better and achieve greater VFM.

**Experience**

Our aim is to provide a consistently good service and a great customer experience for all the people we serve. We will seek to engage and empower residents to make choices, and devolve decisions to local staff whenever possible and practicable. Ultimately the success of Housing & Care 21 is dependant upon providing satisfaction to our residents.

Each year we publish a detailed VFM report, and the full report for 2017 is published alongside these Financial Statements and can be found at <http://www.housingandcare21.co.uk/about-us/publications/corporate-and-financial>

Our full report outlines how we deliver VFM through our strategic priorities as well as our assessment of the achievements of VFM by our financial performance and benchmarking, which is replicated in the following report.



## VALUE FOR MONEY

### Financial performance

Financial performance is an indication of how well we are using our resources to generate returns and to create the capacity to deliver more in the future. To properly assess our VFM performance it is therefore important to understand how we are managing our cost base, generating return from our assets and demonstrating improvements over time.

Below are some key metrics about the financial performance of our business streams and the financial returns we have generated from our asset base.

### Retirement Housing

Performance indicator	2015 Actual	2016 Actual	2017 Target	2017 Actual	2018 Target
Operating profit*	£44.0m	£44.5m	£44.8m**	<b>£44.8m</b>	£44.4m
Operating margin	56.0%	55.9%	55.2%**	<b>55.4%</b>	55.1%
Vacant (void) percentage	2.2%	2.5%	2.2%	<b>1.6%</b>	1.5%
Average re-let days	43 days	43 days	35 days	<b>31 days</b>	31 days
Average responsive repair cost per property	£482	£353	£378	<b>£404</b>	£411

\* After adjusting for depreciation, impairment and central overhead allocation

\*\* The target for operating profit as stated in our 2016 VFM Report has been restated to ensure the treatment of capitalised repairs is consistent with actuals

In 2017, we generated an operating profit of £44.8m from our Retirement Housing services (2016: £44.5m) which represents 55.4% of turnover (2016: 55.9%). We are satisfied with these positive results, which were in line with our targets, and that we have maintained our operating margin. We expect our results for the coming year to remain broadly consistent in terms of operating profit and margin and our 2018 target reflects the fact that we have been required by Government policy to reduce our rental charges by 1% in April 2017.

Rent and service charge income lost from vacant properties was £0.3m better than expected in the year and £0.4m better than the previous year. As a percentage of total potential income the void loss was 1.6%, compared to a target of 2.2%. This success was achieved by improving the time it takes us to re-let our properties when they are vacated. In the year we managed to reduce our average re-let days per property from 43 days to 31 days. We expect void losses to further reduce as a result of our ongoing efforts to 1.5% in 2018 and then to 1% by 2021.

The average cost of responsive repairs per property has decreased over recent years from £482 in 2015 to £404 in 2017. This has been achieved through a devolved process for repairs management supported by a new repairs system which has allowed court managers greater influence in ordering works and performance managing contractors. While costs per unit were lower in 2016, we believe that this first year of operating under the new service model included some over vigilant cost control by court managers which was not sustainable over a longer period, and the more recent results represent a more realistic run rate. Our target for 2018 includes an allowance for a 3% inflationary increase.

Our properties have previously been assessed using four key measures: void performance, repair costs, operating profit and the number of bedsit flats and categorised as either 'red', 'amber', or 'green'. We believe that, with suitable investment, courts with a green or amber status will provide good financial returns and outcomes for older people over the longer term. Courts rated as being of concern (red) were prioritised for detailed business plans so that we could consider

the most appropriate action to be taken to maximise the return from these assets. We currently have three red courts available for sale and a further three remain. We will not invest significantly in these three courts on the basis that we cannot be sure that we will receive sufficient financial return. Instead, we will continue to monitor performance on an annual basis and will commit, where appropriate, to short term investment in them in order to achieve the right balance between financial return and meeting customer expectations. Within the next ten years we will either decommission and redevelop these courts or sell them.

During 2017 we disposed of Sharratt Court in Nottingham (a red Court) due to concerns that this court was unable to achieve the outcomes, financial or otherwise, that we would expect and so was unable to deliver sufficient VFM. We also took the opportunity to dispose of some other non-core assets, including some land in Guernsey and some individual properties from our small stock of family housing. In total we achieved proceeds of £1,513k from these disposals and a surplus of £249k, which we will reinvest into our services.

### Extra Care - housing

Performance indicator	2015 Actual	2016 Actual	2017 Target	2017 Actual	2018 Target
Operating profit*	£15.9m	£20.2m	£23.0m**	<b>£23.5m</b>	£23.2m
Operating margin	51.3%	52.0%	53.3%**	<b>54.1%</b>	51.0%
Vacant (void) percentage	2.8%	2.5%	2.5%	<b>2.4%</b>	2.0%
Average re-let days	56 days	50 days	50 days	<b>32 days</b>	32 days
Average responsive repair cost per property	£533	£395	£448	<b>£491</b>	£494

\* After adjusting for depreciation, impairment and central overhead allocation

\*\* The target for operating profit as stated in our 2016 VFM Report has been restated to ensure the treatment of capitalised repairs is consistent with actuals

In 2017, we generated an operating profit of £23.5m from our Extra Care housing services (2016: £20.2m) which represents 54.1% of turnover (2016: 52.0%) and is broadly in line with targets. The majority of this growth in operating profit was contributed by the addition of newly developed Extra Care properties. We expect our results for the forthcoming year to remain broadly consistent in terms of operating profit and margin and our 2018 target reflects the fact that we have been required by Government policy to reduce our rental charges by 1% in April 2017.

Rent and service charge income lost from vacant properties was £0.2m better than expected in the year and £1.8m better than the previous year. £1.7m of this improvement compared to the previous year was the result of having fewer new properties becoming available to let for the first time. As a percentage of total potential income the void loss was 2.4%, compared to a target of 2.5% (excluding newly built properties). This success was achieved by improving the time it takes us to re-let our properties when they are vacated; in the year we managed to reduce our average re-let days per property from 50 days to 32 days.

We expect void losses to drop further as a result of our ongoing efforts to 2.0% in 2018 and then to 1.5% by 2021.

The average cost of responsive repairs per property has decreased over recent years from £533 in 2015 to £491 in 2017. The reasons for this movement in costs are the same as described previously for Retirement Housing.

VALUE FOR MONEY

Extra Care - care

Performance indicator	2015 Actual	2015 Actual	2017 Target	2017 Actual	2018 Target
Operating profit *	£2.1m	£2.6m	£1.9m	<b>£2.1m</b>	£2.1m
Operating margin	8.7%	9.8%	7.6%	<b>7.8%</b>	8.2%
Average weekly care hours	44,700	45,200	39,700	<b>42,100</b>	41,000
Loss making contracts	14	8	nil	<b>12</b>	nil
Losses generated from loss making contracts	£0.3m	£0.2m	£nil	<b>£0.5m</b>	£0

\*After adjusting for central overhead allocation

In 2017, our Extra Care care services reported an operating profit of £2.1m (2016: £2.6m) and an operating margin of 7.8% (2016: 9.8%) and exceeded our targets for the year. The operating margin percentage fell, in comparison to 2016, primarily due to the increase in staff related costs resulting from NLW legislation.

We were disappointed that we had 12 care services which reported financial losses totalling £0.5m during 2017. The

majority of these losses came from eight locations where we provide care into extra care courts which we do not own. In some cases we have experienced difficulties with recruiting and retaining care workers, particularly in the South East, and have had to resort to the use of agency workers at additional expense. Three of these services, which contributed £0.4m of the losses, have been decommissioned in the first quarter of 2018 and we have taken a decision that, in future, we will not deliver care into

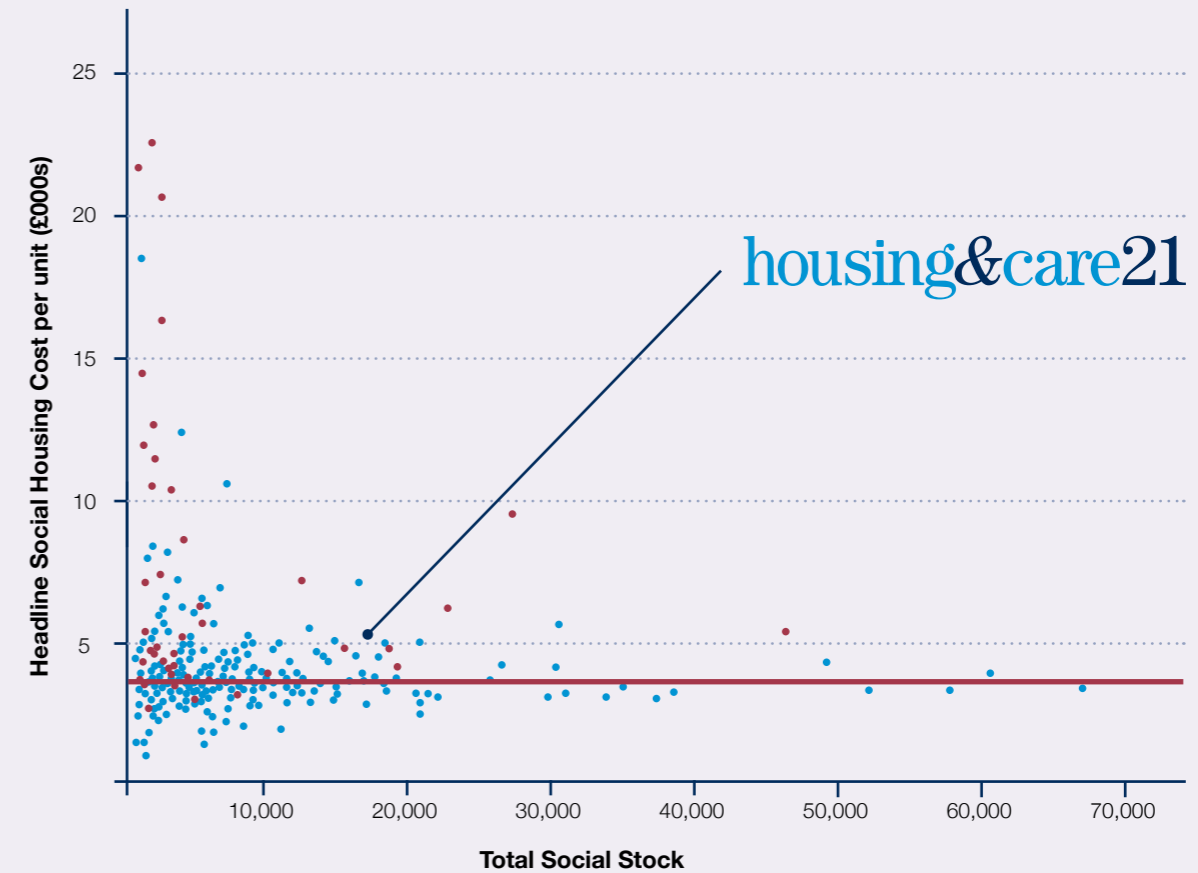
courts where we are not the landlord as we are not satisfied with the returns that these services can generate. For any remaining services which fail to generate profits, we will look for opportunities to improve performance, attempt to negotiate additional income from the extra care commissioners and ultimately, take a decision to exit these services if our efforts are unsuccessful.

Benchmarking our cost base

Where practical, we compare our performance against other organisations to provide further assurance that we are moving in the right direction in terms of VFM. We continue to be a part of the M6 Group (a collaborative group of Midlands-based housing associations) which looks to compare costs and performance and share best practice. Our focus in this year's report is on the HCA's measures of costs per unit. We also comment on the Sector Scorecard indicators which have been developed by the efficiency working group of housing associations.

Social housing costs per unit

In June 2016, the HCA published 'Delivering better value for money: understanding the differences in unit costs' which included average unit costs for the sector. The below chart is taken from an HCA report on unit costs in the sector and shows the headline social housing cost per unit plotted by total social stock size:



The horizontal red line indicates the median cost level. The red markers identify providers who have either 10% of their stock for supported housing or more than 50% for older people's housing. We believe that we are positioned within the large cluster on the bottom left of the chart and that our average costs per unit are not significantly dissimilar to sector averages.

We have reviewed our costs in comparison to sector averages and have attempted to understand and explain why there are differences. It can be challenging to benchmark our costs in a meaningful way due to the diverse nature of the housing sector. We believe that we are particularly unique due to the nature of our services and so it can be difficult to ensure like-with-like comparisons. For example, our service

costs are significantly higher due to the nature of our older people's services and our model of providing a court manager service. In addition, the running costs of our PFI activities disproportionately inflate our management costs, despite the fact we are reimbursed for these costs through a unitary charge, which is included in turnover.

## VALUE FOR MONEY

Headline social housing costs consist of management, service charge, maintenance, major repairs and other social housing costs.

Unit costs	Housing & Care 21 (2017)	Sector average (2016)
Headline social housing costs	£5,790	£3,960

In 2015, the HCA reported that the average headline cost of housing for older people was £1,800 greater per unit than a hypothetical 'baseline' provider with 100% general needs properties. Assuming this difference in costs remains, we conclude that the sector average headline cost for older people's housing in 2017 is circa £5,760.

Housing & Care 21's headline social housing costs for 2016 and 2017 are therefore broadly in line with sector averages. As we had expected, our year-on-year increase in headline social housing costs per unit is largely the result of our significantly increased major repairs and capitalised improvement works. Our headline social housing

cost per unit drops to £5,428 per unit if adjusted for the additional £7m we invested in our properties in the year to improve quality.

Unit costs	2015	2016	2017
Management costs	£1,610	£1,490	£1,370
Service charge costs	£1,800	£1,890	£1,900
Maintenance costs	£870	£760	£910
Major repairs / capitalised improvement works	£870	£1,080	£1,410
Other social housing costs	£150	£140	£200
Headline social housing costs	£5,300	£5,360	£5,790
Closing social housing units owned and managed	18,573	19,250	19,341

Management costs per unit have reduced by circa £120 during the last year to £1,370. This reduction is primarily due to further restructures and efficiencies across a number of corporate overhead departments.

At £1,900 per unit, service charge costs make up around one third of our headline social housing costs and are broadly consistent year-on-year. Our service charge costs are higher than the wider sector, reflecting the additional needs of older people when compared to a typical general needs housing provider and include the costs associated with providing a dedicated court manager service. We would also expect our service charge costs to be higher than average due to the nature of our properties, which largely consist of blocks of flats with relatively extensive communal areas which incur gardening, utility and cleaning costs. These costs wouldn't otherwise be incurred by most other general needs providers whose property portfolio may consist largely of houses.

Maintenance costs per property have increased by £150 in the year to £910. However, our maintenance costs remain lower than the sector average and we believe that this is because older people's accommodation generally requires lower levels of repairs and maintenance. Our maintenance costs include the investment we have made to redecorate the extensive communal spaces at our courts, as discussed above. Excluding these additional costs which we have actively chosen to incur, our average maintenance costs per property would be even lower than the sector average.

Major repairs and capitalised improvement works have risen again during 2017, as planned. Costs per unit have reached £1,410 which is significantly higher than the sector average. This reflects our decision to increase our investment in improving the quality and standard of our properties over the next five years. Again, the nature of our properties also means that major repairs expenditure is likely to be higher compared to the wider sector when

associated with the blocks of flats that we predominantly have. This is because expenditure is required on items not otherwise associated with general needs houses such as lifts, emergency lighting and flat roofs.

Other social housing costs are £200 per unit and consist mainly of support charge costs. This includes the central alarm service and an element of the cost of providing a dedicated court manager service. As mentioned previously, the nature of our services for older people means that we would expect our costs to be higher than sector averages in this area.

We will continue to track our performance of costs per unit and will seek opportunities to gather more detailed information about how our costs compare to those of similar providers of specialist housing for older people and to understand differences with greater clarity.

## Sector Scorecard

The Sector Scorecard is a set of indicators proposed by an efficiencies working group, which will be used to measure and benchmark efficiency across the social housing sector. The aim is for these indicators to become the mainstream way that efficiency and effectiveness are measured and they include the HCA's unit cost measures

that we have reported on above. Housing & Care 21 has committed to contribute to a one year pilot that is being run to test and refine the indicators. We understand that this initiative is widely supported, including by the HCA, and that a full launch is planned for 2018.

In the following table we include those relevant indicators which we are currently able to measure and explain reasons

for movements over the past two years. We expect that as the pilot initiative progresses during 2018, we will gain access to sector wide benchmarking data on a quarterly basis and that this will provide us with further opportunities to focus on how our VFM performance compares to that of our peers.

Housing & Care 21 Group	2015	2016	2017
<b>Business health</b>			
Operating margin – overall*	17.0%	20.9%	18.2%
Operating margin – social housing*	19.2%	24.0%	21.5%
EBITDA MRI (as a % of interest)*	179%	212%	183%
<b>Development capacity and supply</b>			
Units developed	1,131	256	113
Units developed as a % of units owned	6.5%	1.4%	0.6%
Gearing	45%	43%	42%
<b>Outcomes delivered</b>			
£ invested in new housing supply from every £ generated from operations	£1.88	£0.54	£0.16
<b>Effective asset management</b>			
Return on capital employed*	2.5%	3.4%	2.8%
Occupancy	95.9%	97.0%	98.4%
Ratio of responsive repairs to planned maintenance spend	46.4%	34.5%	34.0%
<b>Operating efficiencies</b>			
Rent collected	99.4%	100.4%	100.3%
Overheads as a % of adjusted turnover	11%	10%	9%

\* Adjusted for a number of one-off charges/credits in order to better reflect the underlying performance and movements

## VALUE FOR MONEY

### Business health

In general our operating profits from social housing and interest cover have increased each year due to additional revenue from the construction of new properties as well as the annual increase in our rental charges. This fact alone demonstrates the additional value being delivered from our resources each year. In 2017, the operating margin reduced down to 18.2% primarily due to the impact of accelerated depreciation of our property components (such as kitchens and bathrooms) to reflect that they will, in future, be renewed sooner and so they now have a shorter lifespan than previously anticipated. Excluding this additional depreciation charge, our social housing operating margin for 2017 was 25.8%.

### Development capacity and supply and outcomes delivered

Our previous focus on the HCA's 2015 Affordable Homes Programme will result in us delivering a relatively low volume of new housing up to 2019 as we have a 24-36 month lead time to take a new development through the delivery pipeline. However, we have ambitious growth targets to develop 2,310 new homes by 2021 and 800 properties per year thereafter. We have sufficient financial strength and capacity to deliver these plans. Our gearing levels have improved over the period reported due to our strong operational performance which has contributed to larger reserves and generated a strong cash position, allowing us in turn to reduce the level of loan finance we currently hold.

### Effective asset management

Return on capital employed (ROCE) is an overall measure of how efficiently we are using our assets to generate returns. The movements in this ratio are explained in the same way as the movement in our operating margin. We expect that when we eventually have the opportunity to benchmark our metrics against those of our peers, we will find that our ROCE is lower than average due to the fact that our Financial Statements include our property assets at 'deemed cost' based on recent valuations rather than at the lower 'historical cost' value utilised by many other housing associations.

Our occupancy rates have improved over recent years as we have taken steps to improve the approach to re-letting properties when they are vacated. Improved performance has been supported by our increased property investment and efficiencies in our letting process.

Over recent years we have seen a reduction in the percentage of our total maintenance spend (both revenue and capital investment) which has been done in reaction to a repair request. This reflects, as expected, our decision to significantly increase our investment in improving the quality of our properties in a way which is proactively planned and controlled.

### Operating efficiencies

We are pleased to report that we collected 100.3% of our annual rent and service charges in the last year and that this performance has improved from 99.4%. Our Central Collection Team has targeted their efforts on the prevention of arrears, working closely with local managers, encouraging payment by Direct Debit and more actively implementing our policy of collecting four weeks rent in advance from new residents.

Our corporate overheads as a percentage of turnover have fallen each year, down to 9% in 2017. These savings are primarily due to restructures and efficiencies across a number of our corporate overhead departments and reflect our ongoing efforts to demonstrate greater VFM from our central cost base. In last year's VFM report we set ourselves a target to reduce our corporate overheads to £19.6m during 2017 and we exceeded this goal with a total cost of £18.5m in the year. We aim to reduce this cost base further to £17.5m in 2018.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOUSING & CARE 21

We have audited the Financial Statements of Housing & Care 21 for the year ended 31 March 2017 which comprise the Consolidated and Association Statement of Comprehensive Income, the Consolidated and Association Balance Sheets, the Consolidated and Association Statement of Changes in Equity, the Consolidated and Association Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the association's members, as a body, in accordance with the Housing and Regeneration Act 2008 and Section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the association's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the association and the association's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Board and auditors

As explained more fully in the Statement of Board Member's Responsibilities, the Board Members are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on Financial Statements

In our opinion the Financial Statements:

- Give a true and fair view of the state of the Group's and Parent Association's affairs as at 31 March 2017 and of the Group's and Parent Association's surplus for the year then ended
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice
- Have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014, the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969, the Housing and Regeneration Act 2008 and the Accounting Direction for Private Registered Providers of Social Housing 2015

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- The information given in the Report of the Board for the financial year for which the financial statements are prepared is not consistent with the Financial Statements
- Adequate accounting records have not been kept by the parent association
- A satisfactory system of control has not been maintained over transactions
- The parent association Financial Statements are not in agreement with the accounting records and returns
- We have not received all the information and explanations we require for our audit.



BDO LLP, statutory auditor  
Gatwick, West Sussex  
United Kingdom

Date: 24 August 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

	Note	2017				2016			
		Ongoing activities	One-off items	Discontinued activities	Total	Ongoing activities	One-off items	Discontinued activities	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	3	182,465	-	19,888	202,353	190,527	-	29,153	219,680
Operating costs and cost of sales	3	(149,172)	505	(21,404)	(170,071)	(150,723)	(8,355)	(33,981)	(193,059)
<b>Operating surplus</b>	<b>3</b>	<b>33,293</b>	<b>505</b>	<b>(1,516)</b>	<b>32,282</b>	<b>39,804</b>	<b>(8,355)</b>	<b>(4,828)</b>	<b>26,621</b>
Surplus on disposal of other housing properties and other assets	5	502	-	136	638	1,499	-	-	1,499
(Deficit) on sale of subsidiary	6	-	-	-	-	-	(1,600)	-	(1,600)
Other interest receivable and similar income	9	7,337	-	-	7,337	7,236	-	-	7,236
Interest and financing costs	10	(23,436)	-	-	(23,436)	(23,073)	-	-	(23,073)
Movement in fair value of financial instruments	19	182	-	-	182	1,035	-	-	1,035
<b>Surplus before taxation</b>		<b>17,878</b>	<b>505</b>	<b>(1,380)</b>	<b>17,003</b>	<b>26,501</b>	<b>(9,955)</b>	<b>(4,828)</b>	<b>11,718</b>
Tax on surplus	12	(21)	-	-	(21)	(33)	-	-	(33)
<b>Surplus for the financial year</b>		<b>17,857</b>	<b>505</b>	<b>(1,380)</b>	<b>16,982</b>	<b>26,468</b>	<b>(9,955)</b>	<b>(4,828)</b>	<b>11,685</b>
Actuarial gains on defined benefit pension scheme	26	44	-	-	44	21	-	-	21
Movement in fair value of hedged financial instrument	10 & 19	(2,500)	-	-	(2,500)	(2,128)	-	-	(2,128)
Total comprehensive income for the financial year		15,401	505	(1,380)	14,526	24,361	(9,955)	(4,828)	9,578

## ASSOCIATION COMPREHENSIVE INCOME STATEMENT

	Note	2017				2016			
		Ongoing activities	One-off items	Discontinued activities	Total	Ongoing activities	One-off items	Discontinued activities	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	3	176,293	-	19,888	196,181	183,742	-	29,153	212,895
Operating costs and cost of sales	3	(147,467)	505	(21,404)	(168,366)	(148,786)	(8,355)	(33,981)	(191,122)
<b>Operating surplus</b>	<b>3</b>	<b>28,826</b>	<b>505</b>	<b>(1,516)</b>	<b>27,815</b>	<b>34,956</b>	<b>(8,355)</b>	<b>(4,828)</b>	<b>21,773</b>
Surplus on disposal of other housing properties and other assets	5	502	-	136	638	1,499	-	-	1,499
Surplus on sale of subsidiary	6	-	-	-	-	121	-	-	121
Other interest receivable and similar income	9	1,890	-	-	1,890	1,855	-	-	1,855
Interest and financing costs	10	(15,732)	-	-	(15,732)	(15,127)	-	-	(15,127)
<b>Surplus before taxation</b>		<b>15,486</b>	<b>505</b>	<b>(1,380)</b>	<b>14,611</b>	<b>23,304</b>	<b>(8,355)</b>	<b>(4,828)</b>	<b>10,121</b>
Tax on surplus	12	-	-	-	-	-	-	-	-
<b>Surplus for the financial year</b>		<b>15,486</b>	<b>505</b>	<b>(1,380)</b>	<b>14,611</b>	<b>23,304</b>	<b>(8,355)</b>	<b>(4,828)</b>	<b>10,121</b>
Actuarial gains on defined benefit pension scheme	26	44	-	-	44	21	-	-	21
Movement in fair value of hedged financial instrument	10 & 19	(1,002)	-	-	(1,002)	389	-	-	389
Total comprehensive income for the financial year		14,528	505	(1,380)	13,653	23,714	(8,355)	(4,828)	10,531



## GROUP STATEMENT OF CHANGES IN RESERVES

	2017				2016			
	Income and expenditure reserve	Cash flow hedge reserve	Revaluation reserve	Total	Income and expenditure reserve	Cash flow hedge reserve	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 April</b>	<b>377,993</b>	<b>(61,503)</b>	<b>306,781</b>	<b>623,271</b>	<b>364,579</b>	<b>(59,375)</b>	<b>308,489</b>	<b>613,693</b>
Surplus for the financial year	16,982	-	-	16,982	11,685	-	-	11,685
Actuarial gains on defined benefit pension scheme	44	-	-	44	21	-	-	21
Movement in fair value of hedged financial instrument	-	(2,500)	-	(2,500)	-	(2,128)	-	(2,128)
<b>Other comprehensive income for the year</b>	<b>44</b>	<b>(2,500)</b>	<b>-</b>	<b>(2,456)</b>	<b>21</b>	<b>(2,128)</b>	<b>-</b>	<b>(2,107)</b>
Reserve transfers:								
Transfer from revaluation reserve to income and expenditure reserve	3,341	-	(3,341)	-	1,708	-	(1,708)	-
<b>Balance at 31 March</b>	<b>398,360</b>	<b>(64,003)</b>	<b>303,440</b>	<b>637,797</b>	<b>377,993</b>	<b>(61,503)</b>	<b>306,781</b>	<b>623,271</b>

## ASSOCIATION STATEMENT OF CHANGES IN RESERVES

	2017				2016			
	Income and expenditure reserve	Cash flow hedge reserve	Revaluation reserve	Total	Income and expenditure reserve	Cash flow hedge reserve	Revaluation reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1 April</b>	<b>370,473</b>	<b>(6,975)</b>	<b>289,207</b>	<b>652,705</b>	<b>358,623</b>	<b>(7,364)</b>	<b>290,915</b>	<b>642,174</b>
Surplus for the financial year	14,611	-	-	14,611	10,121	-	-	10,121
Actuarial gains on defined benefit pension scheme	44	-	-	44	21	-	-	21
Movement in fair value of hedged financial instrument	-	(1,002)	-	(1,002)	-	389	-	389
<b>Other comprehensive income for the year</b>	<b>44</b>	<b>(1,002)</b>	<b>-</b>	<b>(958)</b>	<b>21</b>	<b>389</b>	<b>-</b>	<b>410</b>
Transfer from revaluation reserve to income and expenditure reserve	3,341	-	(3,341)	-	1,708	-	(1,708)	-
<b>Balance at 31 March</b>	<b>388,469</b>	<b>(7,977)</b>	<b>285,866</b>	<b>666,358</b>	<b>370,473</b>	<b>(6,975)</b>	<b>289,207</b>	<b>652,705</b>

## CONSOLIDATED AND ASSOCIATION BALANCE SHEETS AS AT 31 MARCH 2017

Registered number **16791R**

	Note	Group		Association	
		2017	2016	2017	2016
		£'000	£'000	£'000	£'000
Goodwill	28	-	-	-	-
<b>Tangible fixed assets</b>					
Housing properties	13	1,089,750	1,089,378	1,003,977	1,002,595
Other fixed assets	14	1,513	2,172	1,513	2,172
Investments	27	-	-	6,485	6,485
		<b>1,091,263</b>	<b>1,091,550</b>	<b>1,011,975</b>	<b>1,011,252</b>
<b>Current assets</b>					
Housing properties and stock for sale	15	1,604	4,411	1,604	4,411
Debtors with receivable after one year	16	118,400	120,324	45,745	45,007
Debtors with receivable within one year	16	17,285	21,657	12,690	19,155
Cash and cash equivalents	22	69,532	49,430	48,856	28,347
		<b>206,821</b>	<b>195,822</b>	<b>108,895</b>	<b>96,920</b>
<b>Creditors: amounts falling due within one year</b>	<b>17</b>	<b>(97,422)</b>	<b>(84,409)</b>	<b>(74,568)</b>	<b>(62,560)</b>
<b>Net current assets</b>		<b>109,399</b>	<b>111,413</b>	<b>34,327</b>	<b>34,360</b>
<b>Total assets less current liabilities</b>		<b>1,200,662</b>	<b>1,202,963</b>	<b>1,046,302</b>	<b>1,045,612</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>18</b>	<b>(562,865)</b>	<b>(579,692)</b>	<b>(379,944)</b>	<b>(392,907)</b>
<b>Net Assets</b>		<b>637,797</b>	<b>623,271</b>	<b>666,358</b>	<b>652,705</b>
<b>Capital and Reserves</b>					
Share capital	23	-	-	-	-
Cash flow hedge reserve		(64,003)	(61,503)	(7,977)	(6,975)
Revaluation reserve		303,440	306,781	285,866	289,207
Income and expenditure reserve		398,360	377,993	388,469	370,473
		<b>637,797</b>	<b>623,271</b>	<b>666,358</b>	<b>652,705</b>

These financial statements were approved and authorised for issue by the Board on 21 July 2017 and are signed on behalf of the Board by:



Lord Ben Stoneham (Chairman)



Sanaya Robinson (Director)



Paul Hutton (Secretary)

## CONSOLIDATED AND ASSOCIATION CASH FLOW STATEMENTS

	Note	Group		Association	
		2017	2016	2017	2016
		£'000	£'000	£'000	£'000
<b>Cash from operations</b>	<b>21</b>	<b>73,892</b>	<b>66,005</b>	<b>65,297</b>	<b>59,942</b>
<b>Taxation</b>		<b>(32)</b>	<b>(29)</b>	-	-
<b>Net cash generated from operating activities</b>		<b>73,860</b>	<b>65,976</b>	<b>65,297</b>	<b>59,942</b>
<b>Cash flow from investing activities</b>					
Proceeds from the sale of housing properties		6,683	21,382	6,683	21,382
Proceeds from the sale of other fixed assets		1,458	4,740	1,458	4,740
Expenditure on housing properties		(41,002)	(59,942)	(38,733)	(54,855)
Expenditure on other fixed assets		(252)	(943)	(252)	(943)
Receipt of grants		2,201	3,369	2,201	3,369
Interest received and gift aid		7,319	7,236	1,611	907
Net investment in subsidiaries		-	-	(849)	(4,210)
Net proceeds from sale of Home Care		1,713	-	1,713	-
Net proceeds from sale of subsidiary undertakings		200	321	200	321
Cash disposed with subsidiary		-	(250)	-	-
<b>Net cash from investing activities</b>		<b>(21,680)</b>	<b>(24,087)</b>	<b>(25,968)</b>	<b>(29,289)</b>
<b>Cash flow from financing activities</b>					
Repayment of obligations under finance leases		(68)	(61)	(68)	(61)
Repayment of bank borrowings		(9,008)	(8,582)	(3,968)	(5,961)
Proceeds from new loans		-	-	-	-
Debt issue costs incurred		-	(11)	-	(11)
Interest paid		(23,002)	(22,889)	(14,784)	(15,527)
<b>Net cash used in financing activities</b>		<b>(32,078)</b>	<b>(31,543)</b>	<b>(18,820)</b>	<b>(21,560)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>20,102</b>	<b>10,346</b>	<b>20,509</b>	<b>9,093</b>
<b>Cash and cash equivalents at the beginning of the year</b>		49,430	39,084	28,347	19,254
<b>Cash and cash equivalents at the end of the year</b>		69,532	49,430	48,856	28,347

# Notes to the Financial Statements

for the year ended 31 March 2017



## NOTES TO THE FINANCIAL STATEMENTS

**1. Principal accounting policies**

The Financial Statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which for Housing & Care 21 includes the:

- Cooperative and Community Benefit Societies Act 2014 (and related group accounts regulations)
- Housing and Regeneration Act 2008
- FRS 102 “the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland”
- Statement of Recommended Practice (SORP) for Registered Social Housing Providers, “Accounting by registered social housing providers” 2014
- Accounting Direction for Private Registered Providers of Social Housing 2015

The preparation of Financial Statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group’s accounting policies.

The Group and Association are Public Benefit Entities (PBEs) for the purpose of the application of certain accounting policies.

**1.1. Parent Association disclosure exemptions**

In preparing the separate Financial Statements of the Parent Association, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the Group and the parent Association would be identical
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent Association, because their remuneration is included in the totals for the Group as a whole

**1.2. Basis of preparation**

The Financial Statements are prepared on a going concern basis, under the deemed historic cost basis, as modified for the valuation of derivative financial instruments.

**1.3. Basis of consolidation**

The consolidated Financial Statements present the results of Housing & Care 21 – registered provider of social housing and its subsidiary companies (“the Group”) as if they formed a single entity. Transactions and balances between Group companies are therefore eliminated in full to show transactions and balances with third parties only.

The consolidated Financial Statements incorporate the results of business combinations using the purchase method. In the Balance Sheet, the identifiable assets, liabilities and contingent liabilities of the acquired entity are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Comprehensive Income Statement from the date on which control is obtained (usually also the acquisition date). They are deconsolidated from the date control ceases.

**1.4. Business combinations that are gifts**

Where there is a business combination that is in substance a gift (i.e. an acquisition of another entity for nil consideration), any excess of the fair value of the net assets received is recognised as a surplus in the Comprehensive Income Statement. This surplus represents the gift of the value of one entity to another and is recognised as income. Where a fair value of net liabilities is acquired, the loss represents net obligations assumed and is recognised as an expense.

**1.5. Turnover**

Turnover is measured at the fair value of the cash consideration received or receivable. The Group generates the following material income streams:

- Rental income receivable (after deducting lost rent from empty properties available for letting)
- Service charges receivable (see Service charges – Note 1.8)
- First tranche sales of Low Cost Home Ownership housing properties developed for sale
- Sales of outright sale housing properties
- Revenue grants and proceeds from the sale of land and property
- Invoiced amounts receivable from the delivery of care services
- Invoiced amounts receivable from the delivery of housing and care services under PFI and PPP contract arrangements (see Long term PFI and PPP contracts – Note 1.6)

Rental income is recognised from the point when properties under development reach practical completion and are available to let. Income from first tranche sales and sales of properties built for sale is recognised at the point of legal completion of the sale. Income from care is recognised at the point of delivery of the service to the service user.

**1.6. Long term PFI and PPP contracts**

Income and profit is recognised with reference to the stage of completion and/or delivery of services and milestones associated with the long-term contract. Income recognised from such contracts is stated at the total costs incurred in delivering the contract (including finance costs) plus any attributable profit assessed to have been earned to date, less amounts recognised in previous years.

Any excess of total income invoiced to date above the calculated stage of completion is recognised as a creditor on the Balance Sheet as deferred income. Any shortfall between the total income invoiced compared to the total costs incurred to date is accrued and recognised as a debtor on the Balance Sheet.

## NOTES TO THE FINANCIAL STATEMENTS

Where any losses over the life of the contract including future losses are identified which can not be recovered from invoiced income, then appropriate provisions are made in full in the year that they are identified.

**1.7. Supporting People**

The Group receives Supporting People grants from a number of local authorities. The grants received in the period as well as costs incurred by the Group in the provision of support services have been included in the Comprehensive Income Statement. Any excess of cost over the grant received is borne by the residents through their support charge. Any excess of grant received over the cost incurred is recognised as a creditor on the Balance Sheet as deferred income until utilised.

**1.8. Service charges**

The Group adopts the variable method for calculating and charging service charges to its residents and leaseholders. Expenditure is recorded when a service is provided and charged to the relevant service charge account or to a sinking fund. Income is recorded based on the amount of service charge receivable from residents.

Any excess of service charge receivable over service costs is deferred to the Balance Sheet as deferred income and is used to offset future years charges. Any shortfall between service charge receivable and service costs is accrued and recognised as a debtor on the Balance Sheet and recovered from residents in future years’ charges.

**1.9. Taxation**

The Group is exempt from Corporation Tax on income and gains to the extent that these are derived from the Group’s charitable objectives. The tax expense in the year relates to Group companies that are subject to UK taxation in addition to the non-exempt tax for the parent Association.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Comprehensive Income Statement, except for any changes attributable:

- To items of income or expense recognised as Other Comprehensive Income
- To an item recognised directly in equity

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Association’s subsidiaries operate and generate taxable income (namely the State of Guernsey).

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met
- Where timing differences relate to interests in subsidiaries and the Group can control their reversal and such reversal is not considered probable in the foreseeable future

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

**1.10. Valued Added Tax (VAT)**

The majority of services supplied by the Group are exempt from VAT. However, the Group does charge VAT on its management contracts and PFI unitary charge income. This enables the Group to recover part of the VAT it incurs on expenditure under a Partial Exemption Special Method (PESM) calculation agreed with HM Revenue & Customs (HMRC).

The Financial Statements include VAT to the extent that it is incurred by the Group and not recoverable from HMRC.

All expenditure is shown inclusive of VAT and the recoverable VAT arising from partially exempt activities is included in the Comprehensive Income Statement as Turnover.

**1.11. Interest and financing costs**

Finance costs are charged to the Comprehensive Income Statement based on the interest rate applicable on the debt in the year. Loan issue costs (including costs associated with arranging security charges on properties for new loans) are initially capitalised as an offset against the principle and then subsequently amortised to the Comprehensive Income Statement over the life of the new loan facility. Non-utilisation and other loan fees for existing debt are charged to the Comprehensive Income Statement.

## NOTES TO THE FINANCIAL STATEMENTS

**1.12. Pension costs**

The Group participates in a number of defined contribution and closed defined benefit pension schemes.

Contributions to the Group's defined contribution pension schemes are charged to the Comprehensive Income Statement in the year in which they become payable.

The Group participates in a number of multi-employer defined benefit pension schemes (which are now closed to both new and current members). These are accounted for as if they are defined contribution schemes on the basis that:

- Insufficient information is available for the Group to be able to determine its share of the actuarial assets and liabilities, in order to apply defined benefit accounting
- Appropriate liability caps and indemnities are in place with each pension fund that would preclude any liability crystallising for the Group

Where the exemptions above are not applicable, the pension scheme is accounted as a defined benefit scheme. The difference between the Group's share of the scheme's fair value of the assets and the scheme's liabilities (as measured on an actuarial basis using the projected unit method) are recognised in the Group's Balance Sheet as a pension asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the Group is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Any obligations payable from agreements to fund multi-employer defined benefit plans (where they are accounted as defined contribution schemes) are recognised in full as a liability upon entry into the agreement. This future liability is discounted using a rate determined by high quality corporate bonds at each reporting date. The discount unwinds each year as an interest expense through the Comprehensive Income Statement.

**1.13. Holiday pay accrual**

A liability is recognised to the extent of any unused holiday pay entitlement for care staff which has accrued at the Balance Sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement at the Balance Sheet date.

**1.14. Intangible assets – goodwill**

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the net assets of the company acquired at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Surpluses and losses on the disposal of a subsidiary company include the carrying amount of the associated goodwill.

Goodwill has been amortised over periods ranging from 10 to 20 years based on the assumed useful economic lives applied prior to the adoption of FRS 102.

**1.15. Tangible fixed assets – housing properties**

Housing properties constructed or acquired (including land) on the open market since the date of transition to FRS 102 are stated at cost less depreciation and impairment (where applicable). The cost of housing land and property represents their purchase price and any directly attributable costs of acquisition which may include an appropriate amount for staff costs and other costs of developing the property.

Directly attributable costs of acquisition include capitalised interest calculated, on a proportional basis, using finance costs on borrowing which has been drawn in order to finance the relevant construction or acquisition. Where housing properties are in the course of construction, finance costs are only capitalised where construction is ongoing and has not been interrupted or terminated.

Planned expenditure on major component replacements and refurbishments to properties is capitalised where the works:

- Increase the rental stream over the life of the property
- Reduce the future maintenance costs of the property
- Subsequently extend the life of the property
- Constitute replacement of major components where the replaced component can be identified and written off (see also Depreciation of housing property – Note 1.17)

All other repair and replacement expenditure is charged to the Comprehensive Income Statement.

Mixed developments, excluding the estimated cost of the element of shared ownership properties held for sale (if any) as first tranche, are held within fixed asset housing properties and accounted for at cost less depreciation.

Housing properties in the course of construction, excluding the estimated cost of the element of shared ownership properties expected to be sold in first tranche (see Shared ownership properties and staircasing – Note 1.19), are included in fixed asset housing properties and held at cost less any impairment, and are transferred to completed properties when ready for letting.

**1.16. Deemed cost on transition to FRS 102**

On transition to FRS 102 the Group took the option of freezing its valuation of housing properties and using that amount as deemed cost. To determine the deemed cost at 1st April 2014, the Group utilised its valuation as at 31 March 2014 which was undertaken by Deloitte Real Estate to value housing properties on an EUV-SH basis. Housing properties will subsequently be measured at cost less depreciation.

## NOTES TO THE FINANCIAL STATEMENTS

The deemed cost approach has resulted in a Revaluation Reserve remaining on the Balance Sheet. On disposal of a property or court, a transfer is made from the Revaluation Reserve to the Comprehensive Income Statement Reserve of an amount equal to the difference between the historical cost and the deemed cost. Otherwise, the Revaluation Reserve is also amortised to the Income and Expenditure Reserve over a period of 100 years.

**1.17. Depreciation of housing property**

Housing land and property is split between land, structure and other major components that are expected to require replacement over time.

Land is not depreciated on account of its indefinite useful economic life. The portion of shared ownership property retained or expected to be retained is depreciated over 100 years.

Assets in the course of construction are not depreciated until they are ready for letting to ensure that they are depreciated only in periods in which economic benefits are expected to be materially consumed.

The cost of housing property (net of accumulated depreciation to date and impairment, where applicable) and components are depreciated over the useful economic lives of the assets on the following basis:

Component	Years
Land	Infinite
Structure	100
Roof	50
Windows & doors	30
Kitchens & bathrooms	20-25
Mechanical services	20
Heating & plumbing	25
Fit-out costs	25

Housing properties are split between the structure and the major components which require periodic replacement. The costs of replacement or restoration of these components are capitalised and depreciated over the determined average useful economic life.

Where a major component is replaced before the end of its economic useful life and is not fully depreciated, an additional charge (accelerated depreciation), equivalent to the remaining net book value of the component, is recognised in the Comprehensive Income Statement.

**1.18. Donated land and other assets**

Land and other assets donated by local authorities and other government sources are added to cost at the fair value of the asset at the time of the donation. The donation is treated as a non-monetary grant and recognised in the Balance Sheet as a liability.

Where the donation is from a non-public source the value of the donation is included as income.

**1.19. Shared ownership properties and staircasing**

All of the Group's shared ownership properties are low cost home ownership properties. Under low cost home ownership arrangements, the Group disposes of a long lease on low cost home ownership housing units for a share ranging between 25% and 75% equity. The buyer has the right to purchase further proportions up to 75% based on the market valuation of the property at the time each purchase transaction is completed.

Low cost home ownership properties are split proportionately between current and fixed asset housing properties based on the element relating to expected first tranche sales. The first tranche proportion is classed as a current asset and related sales proceeds included in turnover. The remaining element, staircasing element, is classed as fixed asset housing properties and included in completed housing property at cost and any provision for impairment. Sales of subsequent tranches are treated as a part disposal of fixed asset housing properties.

Low cost home ownership properties are depreciated over 100 years.

Any impairment in the value of such properties is charged to the Comprehensive Income Statement.

Costs are allocated to the appropriate tenure on a floor area or unit basis depending on the appropriateness for each scheme.

**1.20. Tangible fixed assets – other**

Other tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

**1.21. Depreciation of other tangible fixed assets**

Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Component	Years
Leasehold office	Over the remaining period of the lease
Office furniture & equipment	10
Motor vehicles	4
Computer software	5
Computer hardware	3

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Surpluses and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within surplus / (loss) on disposal of fixed assets in the Comprehensive Income Statement.

## NOTES TO THE FINANCIAL STATEMENTS

**1.22. Government grants**

Grants received in relation to those properties that are presented at deemed cost at the date of transition (1 April 2014) have been accounted for using the performance model as required by Housing SORP 2014. In applying this model, the grant has been presented as if it were originally recognised as income within the Comprehensive Income Statement in the year the associated housing properties were completed and is therefore included within brought forward reserves.

Grant received since the transition date in relation to newly acquired or developed housing properties is accounted for using the accrual model set out in FRS 102 and the Housing SORP 2014. Grant is carried as deferred income in the Balance Sheet and released to the Comprehensive Income Statement on a systematic basis over the useful economic lives of the asset for which it was received. In accordance with Housing SORP 2014, the useful economic life of the housing property structure has been selected (100 years).

Where Social Housing Grant (SHG) funded property is sold, the grant becomes recyclable and is transferred to a recycled capital grant fund until it is reinvested in a replacement property (see Recycled Capital Grant Fund – Note 1.23). Therefore, any amortised grant associated with a sold property is reversed through the Comprehensive Income Statement as a charge in order to account for it in the recycled capital grant fund.

If there is no requirement to recycle or repay the grant on disposal of the assets, any unamortised grant remaining within creditors is released and recognised as income within the Comprehensive Income Statement.

Grants relating to revenue are recognised in the Comprehensive Income Statement over the same period as the expenditure to which they relate once performance related conditions have been met.

Grants due from government organisations or received in advance are included as current assets or liabilities respectively.

**1.23. Recycled Capital Grant Fund**

On the occurrence of certain relevant events, primarily the sale of properties, the HCA can direct the Group to recycle capital grants, or to make repayments of the recoverable amount. The Group adopts a policy of recycling, for which a separate fund is maintained. If unused within a three year period, it will be repayable to the HCA with interest. Any unused recycled capital grant held within the recycled capital grant fund, which it is anticipated will not be used or repaid within one year is disclosed in the Balance Sheet under creditors due after more than one year. The remainder is disclosed under creditors due within one year.

**1.24. Impairments of fixed assets**

The housing property portfolio for the Group is assessed for indicators of impairment at each Balance Sheet date. Where indicators are identified then a detailed assessment is undertaken to compare the carrying amount of the assets to whichever is higher of the following:

- Net realisable value based on social housing market sale (if known)
- Value in use based on the net present value of future cash flows
- Value in use based on the depreciated replacement cost of a similar asset (which reflects the social purpose of holding the asset)

Depreciated replacement cost is calculated based on the rebuild cost of a similar asset, adjusted for the same period of depreciation of the asset being assessed.

Where the carrying value is higher than all three of the assessment outcomes listed above, an impairment charge is recognised for the difference in the Comprehensive Income Statement and the carrying value of the asset adjusted on the Balance Sheet accordingly.

Impairment assessments are undertaken on 'cash generating units'. The Group defines cash generating units as individual courts or schemes.

**1.25. Stock**

Stock represents work in progress and completed properties developed for outright sale and shared ownership. For shared ownership properties the value held as stock is the estimated cost to be sold as a first tranche.

Stock is stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and direct development overheads. Net realisable value is based on estimated sales proceeds after allowing for all further costs to completion and selling costs.

**1.26. Debtors and creditors**

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Comprehensive Income Statement.

**1.27. Recoverable amount of rental and other trade debtors**

The Group estimates the recoverable value of rental and other debtors and impairs the debtor by appropriate amounts. When assessing the amount to impair it reviews the age profile of the debt, historical collection rates and the class of debt.

**1.28. Loans, investments and short term deposits**

All loans, investments and short term deposits held by the Group are classified as 'basic' financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost). FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however, the Group has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instruments are stated on the balance sheet at historical cost.

Loans and investments that are payable or receivable within one year are not discounted.

## NOTES TO THE FINANCIAL STATEMENTS

**1.29. Cash and cash equivalents**

Cash and cash equivalents in the Group's Balance Sheet consists of cash at bank, in hand, deposits and short-term investments which can be accessed instantly.

**1.30. Derivative instruments and hedge accounting**

The Group holds some floating rate loans which expose the Group to interest rate risk. To mitigate against this risk the Group uses interest rate swap instruments which fixes the amount payable over a certain period of time. These instruments are measured at fair value at each reporting date. They are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group has designated each of the swaps against either existing drawn floating rate debt or against floating rate debt that it almost certainly expects to have in the future.

To the extent to which the hedge is effective in mitigating interest rate risk, the movements in fair value (other than adjustments for own or counter party credit risk) are not recognised in the Comprehensive Income Statement but adjusted directly on the Balance Sheet via Other Comprehensive Income, and presented in a separate Cash Flow Hedge Reserve. Any movements in fair value relating to ineffectiveness (and adjustments for our own or counter party credit risk) are recognised in the Comprehensive Income Statement.

**1.31. Leases**

Where assets are financed by leasing agreements that, to all intents and purposes, give rights of ownership (finance leases), the assets are treated as if they have been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease.

The corresponding leasing commitments are shown as amounts payable (excluding the interest). Depreciation on the relevant assets is charged to the Comprehensive Income Statement over the shorter of estimated useful economic life and the term of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the Comprehensive Income Statement over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable on the Balance Sheet.

All other leases are treated as operating leases. Their annual rentals are charged to the Comprehensive Income Statement on a straight-line basis over the term of the lease.

The Group has taken advantage of the optional exemption available on transition to FRS 102 which allows lease incentives on leases entered into before the date of transition to the standard (1 April 2014) to continue to be charged over the period to the first break clause rather than the term of lease.

For leases entered into on or after 1 April 2014, reverse premiums and similar incentives received to enter into operating lease agreements are released to the Comprehensive Income Statement over the term of the lease.

**1.32. Leasehold sinking funds**

Unexpended amounts collected from leaseholders for major repairs on leasehold schemes and any interest received are included in creditors.

**1.33. Contingent liabilities**

A contingent liability is recognised for a possible obligation, for:

- When it is not yet confirmed that a present obligation exists that could lead to an outflow of resources
- Where a present obligation that does not meet the definitions of a provision as it is not probable that an outflow of resources will be required
- When a sufficiently reliable estimate of the amount cannot be made

Contingent liabilities exist on grant repayments which are dependent on the disposal or cessation for the social letting of related properties.

**1.34. Reserves**

The Revaluation Reserve is created from surpluses on housing property revaluations prior to the transition to FRS 102 on 1 April 2014 and the adoption of deemed cost as a basis for valuing housing properties (see Deemed cost on transition to FRS 102 – Note 1.16).

The Cash Flow Hedge Reserve is created from the movements in the fair value of hedging derivatives that are assessed as effective (see Derivative instruments and hedge accounting – Note 1.30).

## NOTES TO THE FINANCIAL STATEMENTS

**2. Judgements in applying accounting policies and key sources of estimation**

In preparing these Financial Statements, the key judgements and estimations have been made in respect of the following:

**2.1.** All housing properties are classified as property, plant and equipment, including the shared ownership properties – as opposed to investment properties. This is because all are judged to be held for their ‘social benefit’ which is a key criterion in FRS 102 for the classification as property, plant and equipment. The Group does not have any commercial or student accommodation.

**2.2.** Group housing property components have been identified and their associated useful economic lives set with reference to the NHF and Savills’ 2011 publication on national property component matrix for sheltered flats.

**2.3.** When undertaking impairment assessments on housing properties, it is judged that an active market does not exist for the sale of sheltered accommodation between registered social providers. Therefore, value in use on the a) net present value of future cash flows or b) depreciated replacement cost is used.

The net present value of future cash flows is based on the current rentals and cost base of the scheme. These are uplifted by the same inflationary assumptions used in new development appraisals. The cash flows are discounted using the Group’s current weighted average cost of capital of its debt. The period over which the cash flows are projected and discounted is based on the estimated remaining useful economic life determined on a case-by-case basis.

The depreciated replacement cost is ascertained by the latest average build cost determined by the Group’s development team for a similar sheltered or extra care court.

An impairment assessment has been undertaken in 2017 as the 1% rent reduction applicable from April 2017 included in the 2016 Welfare Reform Act is an indicator for impairment.

**2.4.** Unplanned major repairs and component replacements on discrete properties are not capitalised in accordance with Accounting Policy 1.15, but expensed as repairs to the Comprehensive Income Statement. This is because the Group judges that such expenditure does not enhance the value of the overall scheme but maintains the quality of the property in line with the wider scheme. Only planned stock investment projects for the entire scheme are capitalised.

**2.5.** For mixed tenure housing properties, an estimate is made in order to allocate the appropriate element of cost between the following categories:

- Fixed asset housing properties – rented accommodation
- Fixed asset housing properties – shared ownership accommodation
- Current asset housing properties held for sale – shared ownership and outright sale accommodation

This is because the construction costs are for the court as a whole and are not split between the different tenures. The apportionment is based on the number of units for each tenure type and the expected first tranche sales equity – both with reference to the final completed tenure mix or the latest development appraisal (if under construction).

Any associated HCA grant is assigned to individual units in the HCA’s Investment Management System (IMS), therefore this is split based on actual allocations. Any grants from non-HCA sources are all allocated to the rented portion. No grant is assumed to be associated with first tranche sales.

**2.6.** The Group has agreed repayment plans for certain residents and service users on their rent arrears and care services. These arrangements represent financing arrangements (in that they are credit terms outside the normal course of business, therefore representing interest free loans) that should be discounted using an equivalent market rate of interest for a similar loan.

However, no adjustments have been made in the Financial Statements. This is because discounting would result in the applicable debt being carried on the Balance Sheet at virtually nil, but debts where payment plans are in place would invariably be impaired through a bad debt provision resulting in a materially similar net balance.

**2.7.** The liability to fund the SHPS deficit through additional deficit contributions is discounted using a rate equivalent to a high quality corporate bond. A rate of 2.9% has been used for 2017 (2016: 3.1%). Any decrease in the rate would result in higher notional interest charges in future years, and any increase would result in lower charges or even an interest credit.

**2.8.** The Group has some fixed rate loans where there are two-way indemnity clauses. These are where the exercise of any termination or early repayment clauses enables compensation payments to occur to either the Group or the lender, depending where the prevailing market interest rates are compared to the fixed rate, at the time of termination. The Group’s judgement is that any such payment (to either party) does not constitute any loss of principal or interest relating to current or previous periods, but a separate element of compensation based on future or foregone losses or gains. Furthermore, both the Group and lenders enter into the loan agreements with the expectation that loans reflect long term funding instruments and not debt trading instruments with the intention to benefit from changes in market interest rates. For these reasons, all such loans have been classified and accounted for as ‘basic’ debt instruments in accordance with the criteria set in Section 11 of FRS 102.

## NOTES TO THE FINANCIAL STATEMENTS

**2.9.** Hedge accounting effectiveness is determined by use of the ‘critical terms method’. This is possible where the underlying loan matches the swap instrument exactly. Where it is not possible, all hedging instruments are judged to be in accordance with the risk management strategies of the Group in regard to interest rate cash flow risk, and therefore, the ‘hypothetical derivative method’ is used to assess effectiveness.

**2.10.** The sales of first tranche shared ownership and outright sale properties are reported in the Comprehensive Income Statement as part of operating surplus in accordance with the SORP. However, the associated cash flows are judged to meet the FRS 102 criteria of ‘cash flow from investing activities as opposed to cash from operations’, and are reported in the Cash Flow Statement as such. The surpluses on sale are shown as an adjustment when reconciling the ‘operating surplus to net cash flow from operating activities’.

**2.11.** As part of the PFI contracts the parent Association has invested equity into the special purpose vehicles holding the PFI contracts. These are judged to meet the FRS 102 criteria of concessionary loans to public benefit entities and have therefore been accounted as the amount receivable to the Association.

**2.12.** The following transitional exemptions have been adopted:

- Accounting for service concession arrangements (the PFI and PPP contracts) are reported the same under these FRS 102 accounts as they were historically. This is to ensure the ease of comparability with previous years and to ensure continual integration with the original operating and financial close models
- Accounting for business combinations and goodwill are reported the same under these FRS 102 accounts as they were historically. This is because the impact on the Balance Sheet and the Comprehensive Income Statement of the FRS 102 method of accounting is considered to be minimal

**2.13.** The level of income (and profit) recognised on the PFI and PPP contracts is based on the estimated stage of completion, which is based on the total expenditure incurred to date compared to the total amount of expenditure expected to be incurred over the life of the contract, and the probability of any losses being incurred on the contract.

The total expected contract costs on the Kent PFI and Walsall PPP are currently expected to be in line with the original models. The total expected contract costs for Oldham PFI have been amended to include the rectification expenditure with the associated knock-on effect on income recognition appropriately reflected in the accounts.

## NOTES TO THE FINANCIAL STATEMENTS

## 3. Turnover, cost of sales, operating costs and operating surplus

Group	2017				2016			
	Turnover	Operating costs and cost of sales	One-off items	Operating surplus	Turnover	Operating costs and cost of sales	One-off items	Operating surplus
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Social housing lettings (Note 4)</b>	<b>141,538</b>	<b>(111,105)</b>	<b>505</b>	<b>30,938</b>	<b>136,029</b>	<b>(103,331)</b>	<b>-</b>	<b>32,698</b>
<b>Other social housing activities</b>								
Support charge	2,926	(2,813)	-	113	2,633	(2,624)	-	9
First Tranche low cost home ownership sales	5,983	(4,886)	-	1,097	18,523	(13,652)	-	4,871
Outright sales	-	-	-	-	1,761	(1,354)	-	407
	<b>8,909</b>	<b>(7,699)</b>	<b>-</b>	<b>1,210</b>	<b>22,917</b>	<b>(17,630)</b>	<b>-</b>	<b>5,287</b>
<b>Total social housing activities</b>	<b>150,447</b>	<b>(118,804)</b>	<b>505</b>	<b>32,148</b>	<b>158,946</b>	<b>(120,961)</b>	<b>-</b>	<b>37,985</b>
<b>Activities other than social housing</b>								
Extra Care services	27,236	(26,343)	-	893	26,890	(25,747)	-	1,143
PFI / PPP non-lettings services	4,782	(4,225)	-	557	4,691	(4,215)	-	476
Other	-	200	-	200	-	200	(8,355)	(8,155)
	<b>32,018</b>	<b>(30,368)</b>	<b>-</b>	<b>1,650</b>	<b>31,581</b>	<b>(29,762)</b>	<b>(8,355)</b>	<b>(6,536)</b>
<b>Continuing operations</b>	<b>182,465</b>	<b>(149,172)</b>	<b>505</b>	<b>33,798</b>	<b>190,527</b>	<b>(150,723)</b>	<b>(8,355)</b>	<b>31,449</b>
<b>Discontinued activities</b>								
Home Care services	19,888	(21,404)	-	(1,516)	29,153	(33,981)	-	(4,828)
<b>Total</b>	<b>202,353</b>	<b>(170,576)</b>	<b>505</b>	<b>32,282</b>	<b>219,680</b>	<b>(184,704)</b>	<b>(8,355)</b>	<b>26,621</b>

- In year, the Home Care business division has been disposed of and as such has been classified as a discontinued activity. The prior year comparatives have also been restated to reflect this.
- Total development administration costs capitalised were £576k (2016: £767k) for both Group and Association.
- Included in one-off items in 2017, for both Group and Association, is a non-cash impairment of housing properties of £3,995k (2016: £nil) and the receipt of a legal settlement relating to the Oldham PFI contract of £4,500k (2016: £nil). In 2016, for both Group and Association, a one-off, non cash impairment of goodwill of £8,355k is included.

## NOTES TO THE FINANCIAL STATEMENTS

## 3. Turnover, cost of sales, operating costs and operating surplus (continued)

Association	2017				2016			
	Turnover	Operating costs and cost of sales	One-off items	Operating surplus	Turnover	Operating costs and cost of sales	One-off items	Operating surplus
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Social housing lettings (Note 4)</b>	<b>135,788</b>	<b>(109,861)</b>	<b>505</b>	<b>26,432</b>	<b>129,796</b>	<b>(101,894)</b>	<b>-</b>	<b>27,902</b>
<b>Other social housing activities</b>								
Support charge	2,926	(2,813)	-	113	2,625	(2,613)	-	12
First Tranche low cost home ownership sales	5,983	(4,886)	-	1,097	18,523	(13,652)	-	4,871
Outright sales	-	-	-	-	1,761	(1,354)	-	407
	<b>8,909</b>	<b>(7,699)</b>	<b>-</b>	<b>1,210</b>	<b>22,909</b>	<b>(17,619)</b>	<b>-</b>	<b>5,290</b>
<b>Total social housing activities</b>	<b>144,697</b>	<b>(117,560)</b>	<b>505</b>	<b>27,642</b>	<b>152,705</b>	<b>(119,513)</b>	<b>-</b>	<b>33,192</b>
<b>Activities other than social housing</b>								
Extra Care services	26,814	(25,882)	-	932	26,345	(25,258)	-	1,087
PFI / PPP non-lettings services	4,782	(4,225)	-	557	4,692	(4,215)	-	477
Other	-	200	-	200	-	200	(8,355)	(8,155)
	<b>31,596</b>	<b>(29,907)</b>	<b>-</b>	<b>1,689</b>	<b>31,037</b>	<b>(29,273)</b>	<b>(8,355)</b>	<b>(6,591)</b>
<b>Continuing operations</b>	<b>176,293</b>	<b>(147,467)</b>	<b>505</b>	<b>29,331</b>	<b>183,742</b>	<b>(148,786)</b>	<b>(8,355)</b>	<b>26,601</b>
<b>Discontinued activities</b>								
Home Care services	19,888	(21,404)	-	(1,516)	29,153	(33,981)	-	(4,828)
<b>Total</b>	<b>196,181</b>	<b>(168,871)</b>	<b>505</b>	<b>27,815</b>	<b>212,895</b>	<b>(182,767)</b>	<b>(8,355)</b>	<b>21,773</b>

- In year, the Home Care business division has been disposed of and as such has been classified as a discontinued activity. The prior year comparatives have also been restated to reflect this.
- Total development administration costs capitalised were £576k (2016: £767k) for both Group and Association.
- Included in one-off items in 2017, for both Group and Association, is a non-cash impairment of housing properties of £3,995k (2016: £nil) and the receipt of a legal settlement relating to the Oldham PFI contract of £4,500k (2016: £nil). In 2016, for both Group and Association, a one-off, non cash impairment of goodwill of £8,355k is included.



## NOTES TO THE FINANCIAL STATEMENTS

## 4. Turnover, operating costs and operating surplus from social housing lettings

Group	2017					2016
	Retirement Housing	Extra Care	PFI / PPP	Corporate	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Rents net of identifiable service charges	53,313	27,552	4,238	(123)	<b>84,980</b>	79,971
Service and utility charges	23,947	14,989	2,289	-	<b>41,225</b>	42,389
Amortisation of government grants	-	320	-	-	<b>320</b>	130
Other income	1,778	155	12,139	941	<b>15,013</b>	13,539
<b>Turnover from social housing lettings</b>	<b>79,038</b>	<b>43,016</b>	<b>18,666</b>	<b>818</b>	<b>141,538</b>	<b>136,029</b>
<b>Expenditure</b>						
Management	(4,571)	(2,980)	(5,138)	(13,831)	<b>(26,520)</b>	(30,142)
Service costs	(21,067)	(13,593)	(2,050)	-	<b>(36,710)</b>	(36,740)
Routine maintenance	(6,305)	(2,469)	(2,595)	-	<b>(11,369)</b>	(9,490)
Planned maintenance	(1,689)	(1,019)	(591)	(2,861)	<b>(6,160)</b>	(6,692)
Major repairs	(597)	(496)	(36)	-	<b>(1,129)</b>	-
Bad debts	1	(1)	-	(72)	<b>(72)</b>	74
Depreciation of housing properties	(18,529)	(8,212)	(1,494)	-	<b>(28,235)</b>	(19,036)
Other depreciation & goodwill amortisation	-	(1)	-	(909)	<b>(910)</b>	(1,305)
	<b>(52,757)</b>	<b>(28,771)</b>	<b>(11,904)</b>	<b>(17,673)</b>	<b>(111,105)</b>	<b>(103,331)</b>
<b>One-off items</b>						
Impairment of housing properties	(3,490)	(505)	-	-	<b>(3,995)</b>	-
Other	-	-	4,500	-	<b>4,500</b>	-
	<b>(3,490)</b>	<b>(505)</b>	<b>4,500</b>	-	<b>505</b>	-
<b>Operating expenditure on social housing lettings</b>	<b>(56,247)</b>	<b>(29,276)</b>	<b>(7,404)</b>	<b>(17,673)</b>	<b>(110,600)</b>	<b>(103,331)</b>
<b>Operating surplus on social housing lettings</b>	<b>22,791</b>	<b>13,740</b>	<b>11,262</b>	<b>(16,855)</b>	<b>30,938</b>	<b>32,698</b>
Void losses	(1,743)	(1,571)	(57)	(123)	(3,494)	(5,913)

Retirement Housing, Extra Care, PFI / PPP and Corporate all represent 'supported housing and housing for older people' Included within void losses are first-let voids on new units of £633k (2016: £2,540k).

Included in one-off items in 2017, for both Group and Association, is a non-cash impairment of housing properties of £3,995k (2016: £nil) and the receipt of a legal settlement relating to the Oldham PFI contract of £4,500k (2016: £nil).

## NOTES TO THE FINANCIAL STATEMENTS

## 4. Turnover, operating costs and operating surplus from social housing lettings (continued)

Association	2017					2016
	Retirement Housing	Extra Care	PFI / PPP	Corporate	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Rents net of identifiable service charges	53,313	27,220	4,238	(123)	<b>84,648</b>	79,539
Service and utility charges	23,947	14,815	2,289	-	<b>41,051</b>	42,065
Amortisation of government grants	-	320	-	-	<b>320</b>	130
Other income	1,778	372	6,678	941	<b>9,769</b>	8,062
<b>Turnover from social housing lettings</b>	<b>79,038</b>	<b>42,727</b>	<b>13,205</b>	<b>818</b>	<b>135,788</b>	<b>129,796</b>
<b>Expenditure</b>						
Management	(4,571)	(3,057)	(6,633)	(13,831)	<b>(28,092)</b>	(31,770)
Service costs	(21,067)	(13,423)	(2,050)	-	<b>(36,540)</b>	(36,422)
Routine maintenance	(6,305)	(2,420)	(1,727)	-	<b>(10,452)</b>	(8,602)
Planned maintenance	(1,689)	(1,011)	(23)	(2,861)	<b>(5,584)</b>	(5,993)
Major repairs	(597)	(496)	(36)	-	<b>(1,129)</b>	-
Bad debts	1	-	-	(72)	<b>(71)</b>	69
Depreciation of housing properties	(18,529)	(8,123)	(432)	-	<b>(27,084)</b>	(17,872)
Other depreciation & goodwill amortisation	-	-	-	(909)	<b>(909)</b>	(1,304)
	<b>(52,757)</b>	<b>(28,530)</b>	<b>(10,901)</b>	<b>(17,673)</b>	<b>(109,861)</b>	<b>(101,894)</b>
<b>One-off items</b>						
Impairment of housing properties	(3,490)	(505)	-	-	<b>(3,995)</b>	-
Other	-	-	4,500	-	<b>4,500</b>	-
	<b>(3,490)</b>	<b>(505)</b>	<b>4,500</b>	-	<b>505</b>	-
<b>Operating expenditure on social housing lettings</b>	<b>(56,247)</b>	<b>(29,035)</b>	<b>(6,401)</b>	<b>(17,673)</b>	<b>(109,356)</b>	<b>(101,894)</b>
<b>Operating surplus on social housing lettings</b>	<b>22,791</b>	<b>13,692</b>	<b>6,804</b>	<b>(16,855)</b>	<b>26,432</b>	<b>27,902</b>
Void losses	(1,743)	(1,569)	(57)	(123)	(3,492)	(5,888)

Retirement Housing, Extra Care, PFI / PPP and Corporate all represent 'supported housing and housing for older people' Included within void losses are first-let voids on new units of £633k (2016: £2,540k).

Included in one-off items in 2017, for both Group and Association, is a non-cash impairment of housing properties of £3,995k (2016: £nil) and the receipt of a legal settlement relating to the Oldham PFI contract of £4,500k (2016: £nil).

## NOTES TO THE FINANCIAL STATEMENTS

## 5. Surplus on disposal of housing properties and other assets

Group and Association	2017				2016
	Shared ownership staircasings	Other housing properties	Sale of Home Care	Total	Total
	£'000	£'000	£'000	£'000	£'000
Proceeds	827	1,513	1,713	4,053	7,166
Costs of sale at carrying value	(574)	(1,264)	(1,577)	(3,415)	(5,667)
<b>Surplus on disposal</b>	<b>253</b>	<b>249</b>	<b>136</b>	<b>638</b>	<b>1,499</b>

The disposals of the above housing properties and other assets on a historical cost basis would have resulted in a gain of £1,216k (2016: £3,208k).

In 2017, the Home Care business division was sold as a going concern for £1,713k. A further £1,500k is receivable conditional on the performance of certain contracts in 2017/18. As such, this has not been recognised within proceeds or included as a debtor at the 31 March 2017 but disclosed here as a contingent asset.

## 6. Surplus / (deficit) on disposal of subsidiaries

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Proceeds	-	121	-	121
Net assets disposed of and selling fees	-	(1,721)	-	-
<b>(Deficit) / Surplus on disposal</b>	<b>-</b>	<b>(1,600)</b>	<b>-</b>	<b>121</b>

On 5 October 2015, Gharana Housing Association (Gharana) divested from the Group for nil consideration. The value of cash at bank and in hand disposed with the subsidiaries was £250k. As the results of Gharana are not material to the Group, it has not been treated as a discontinued operation in the Consolidated Comprehensive Income Statement.

## NOTES TO THE FINANCIAL STATEMENTS

## 7. Directors' and the Executive Team remuneration

The directors of Housing & Care 21 are defined as members of the Board and the Executive team. The Board consists of 10 non-executive members (2016: 10).

The non-executive Board members received the following emoluments during the year

	2017	2016
	£'000	£'000
B Stoneham (Chair)	19	18
S Fanshawe OBE	10	10
R Humphries	10	10
K Jeffries	10	10
J Owen CBE	10	10
S Robinson	11	10
K Boyle	10	10
S Hughes	10	10
M Knott	10	10
L Potter	10	10
M Harker To 25/09/2015	-	5
<b>Total</b>	<b>110</b>	<b>113</b>

Kenneth Jeffries, was a resident of the Association during the year. His tenancy is on the same terms and conditions as other residents. He is unable to use his position as a Board member to any advantage in his relationship with the Association as a resident. The rent & service charged for the year was £6,929 (2016: £6,317) and he had a credit balance of £427 at 31 March 2017 (credit balance of £462 at the 31 March 2016).

The Executive team (see page 13 for more information) received the following emoluments during the financial year:

	2017	2016
	£'000	£'000
Emoluments	524	514
Pension contributions	71	64
<b>Total</b>	<b>595</b>	<b>578</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 7. Directors' emoluments (continued)

	Financial year	Salary	Pension	Total
		£'000	£'000	£'000
<b>B Moore</b>	<b>2017</b>	<b>233</b>	<b>28</b>	<b>261</b>
B Moore	2016	228	34	262

The Chief Executive is an ordinary member of the SHPS (Defined Contribution) pension scheme as set out in Note 26.

## 8. Employee information

The average number of people employed (including the Executive team) expressed as full-time equivalents (calculated on a standard working week of 35 hours) during the year was as follows:

	Group		Association	
	2017	2016	2017	2016
Management, court managers and administration	1,165	1,325	1,163	1,322
Care and ancillary	2,620	3,297	2,611	3,283
	<b>3,785</b>	<b>4,622</b>	<b>3,774</b>	<b>4,605</b>

The number of full-time equivalents included in the Home Care business was 925 (2016: 1,642).

Staff costs (including the Executive team) consist of:

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Wages and salaries	70,115	76,063	69,792	75,597
Redundancy and other costs	85	259	85	259
Social security costs	5,091	5,284	5,070	5,253
Pension costs	1,647	1,724	1,647	1,723
	<b>76,938</b>	<b>83,330</b>	<b>76,594</b>	<b>82,832</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 8. Employee information (continued)

Detailed below is the full time equivalent number of staff whose remuneration payable in relation to the period was in excess of £60,000:

Group & Association	2017	2016
£260,000 - £269,999	1	1
£170,000 - £179,999	1	-
£160,000 - £169,999	1	1
£150,000 - £159,999	-	1
£100,000 - £109,999	2	1
£90,000 - £99,999	5	5
£80,000 - £89,999	4	3
£70,000 - £79,999	5	5
£60,000 - £69,999	6	8

## 9. Other interest receivable and similar income

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Interest received on cash deposits	135	144	106	123
Finance asset interest	7,202	7,092	376	383
Interest receivable from group undertakings	-	-	1,408	1,349
	<b>7,337</b>	<b>7,236</b>	<b>1,890</b>	<b>1,855</b>

## 10. Interest and financing costs

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	(20,054)	(20,581)	(12,469)	(12,752)
All other loans	(1,514)	(1,519)	(1,514)	(1,519)
Finance leases	(91)	(80)	(91)	(80)
Other financing fees and charges	(1,591)	(1,267)	(1,472)	(1,150)
Net interest on pension liabilities	(454)	(246)	(454)	(246)
	(23,704)	(23,693)	(16,000)	(15,747)
Interest capitalised on construction of housing properties	268	620	268	620
	<b>(23,436)</b>	<b>(23,073)</b>	<b>(15,732)</b>	<b>(15,127)</b>
<b>Other financing costs through Other Comprehensive Income:</b>				
Gain / (loss) on fair value of hedged derivative instruments (see Note 19)	(2,500)	(2,128)	(1,002)	389
	<b>(25,936)</b>	<b>(25,201)</b>	<b>(16,734)</b>	<b>(14,738)</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 11. Operating surplus on ordinary activities before tax

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<b>This is arrived at after (charging) / crediting:</b>				
Depreciation of housing properties	(28,235)	(19,037)	(27,084)	(17,874)
Impairment of housing properties	(3,995)	-	(3,995)	-
Depreciation on other fixed assets	(910)	(3,371)	(909)	(3,369)
Amortisation of grant	320	130	320	130
Impairment of goodwill	-	(8,355)	-	(8,355)
Amortisation of goodwill	-	(1,687)	-	(1,687)
Interest element of finance lease payments	(91)	(80)	(91)	(80)
<b>Payments under operating leases</b>				
- land & buildings	(943)	(1,121)	(943)	(1,121)
- other	(122)	(152)	(120)	(150)
<b>Auditors' remuneration (excluding VAT):</b>				
- In their capacity as auditors	(82)	(93)	(70)	(79)
- Leasehold audit	(5)	(5)	(5)	(5)

## 12. Taxation

Housing & Care 21, Kent Community Partnership Limited and Oldham Retirement Housing Partnership Limited have charitable status and therefore are exempt from Corporation Tax on their income and gains to the extent that these are derived from their charitable objectives.

Housing 21 Guernsey Limited by Guarantee - the Administrator of Income Tax in Guernsey has agreed that the company's profits are exempt from Guernsey tax due to the company's charitable activities. The company is managed in such a way that it is treated as being a UK tax resident and therefore it will be subject to UK tax.

The UK taxation charge for the year is analysed as follows:

Current taxation	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
UK Corporation Tax	(21)	(33)	-	-

## Current tax reconciliation

The tax charge differs from the standard rate of corporation tax in the UK. A reconciliation is shown below:

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Surplus on ordinary activities before taxation	16,982	11,685	14,611	10,121
Tax at the standard rate of tax of 20% (2016: 20%)	(3,396)	(2,337)	(2,922)	(2,024)
<b>Effects of:</b>				
Exemption for charitable activities	3,375	2,304	2,922	2,024
Total current tax (charge) / credit	<b>(21)</b>	<b>(33)</b>	<b>-</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS



## NOTES TO THE FINANCIAL STATEMENTS

## 13. Housing properties at deemed cost – Group

	Retirement Housing		Extra Care		PFI & PPP		Assets under construction		Total
	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Deemed Cost</b>									
1 April 2016	778,892	48	392,530	22,040	112,354	749	15,868	1,028	<b>1,323,509</b>
Acquisitions & construction costs	-	-	712	-	-	-	6,612	2,621	<b>9,945</b>
Works to existing properties	24,005	-	2,109	-	121	-	-	-	<b>26,235</b>
Transfers (to) / from current assets	-	-	454	(666)	-	-	-	(1,803)	<b>(2,015)</b>
Completed property transfers	3	-	12,931	902	-	-	(12,934)	(902)	-
Reclassifications	(1,191)	-	1,527	(336)	-	-	-	-	-
Disposals	(27,758)	-	(632)	(467)	-	-	(313)	-	<b>(29,170)</b>
<b>31 March 2017</b>	<b>773,951</b>	<b>48</b>	<b>409,631</b>	<b>21,473</b>	<b>112,475</b>	<b>749</b>	<b>9,233</b>	<b>944</b>	<b>1,328,504</b>
<b>Accumulated depreciation &amp; impairments</b>									
1 April 2016	(176,457)	(1)	(46,793)	(360)	(10,506)	(14)	-	-	<b>(234,131)</b>
Charge in the year	(18,499)	(1)	(7,877)	(364)	(1,481)	(13)	-	-	<b>(28,235)</b>
Impairment	(3,490)	-	(505)	-	-	-	-	-	<b>(3,995)</b>
Reclassification	321	-	(321)	-	-	-	-	-	-
Eliminated on disposals	26,975	-	632	-	-	-	-	-	<b>27,607</b>
<b>31 March 2017</b>	<b>(171,150)</b>	<b>(2)</b>	<b>(54,864)</b>	<b>(724)</b>	<b>(11,987)</b>	<b>(27)</b>	-	-	<b>(238,754)</b>
<b>Net book value</b>									
<b>31 March 2017</b>	<b>602,801</b>	<b>46</b>	<b>354,767</b>	<b>20,749</b>	<b>100,488</b>	<b>722</b>	<b>9,233</b>	<b>944</b>	<b>1,089,750</b>
31 March 2016	602,435	47	345,737	21,680	101,848	735	15,868	1,028	<b>1,089,378</b>

	Retirement Housing		Extra Care		PFI & PPP		Assets under construction		Total
	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Freehold	545,338	46	211,363	15,815	9,504	-	-	-	<b>782,066</b>
Long leasehold	55,569	-	143,404	4,934	90,984	722	9,233	944	<b>305,790</b>
Finance Lease	1,894	-	-	-	-	-	-	-	<b>1,894</b>
<b>31 March 2017</b>	<b>602,801</b>	<b>46</b>	<b>354,767</b>	<b>20,749</b>	<b>100,488</b>	<b>722</b>	<b>9,233</b>	<b>944</b>	<b>1,089,750</b>

Depreciation charge in the year of £28,235k includes £8,729k of accelerated depreciation on replaced components (2016: £1,080k). The £3,995k impairment (2016: £nil) relates to 583 properties located on 21 schemes (2016: nil) and the carrying value of these schemes prior to the impairment was £30,522k.

## NOTES TO THE FINANCIAL STATEMENTS

## 13. Housing properties at deemed cost – Association

	Retirement Housing		Extra Care		PFI & PPP		Assets under construction		Total
	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Deemed Cost</b>									
1 April 2016	778,893	48	387,217	22,040	22,558	749	15,868	1,028	<b>1,228,401</b>
Acquisitions & construction costs	-	-	712	-	-	-	6,612	2,621	<b>9,945</b>
Works to existing properties	24,004	-	1,969	-	121	-	-	-	<b>26,094</b>
Transfers (to) / from current assets	-	-	454	(666)	-	-	-	(1,803)	<b>(2,015)</b>
Completed property transfers	3	-	12,931	902	-	-	(12,934)	(902)	-
Reclassifications	(1,191)	-	1,527	(336)	-	-	-	-	-
Disposals	(27,758)	-	(632)	(467)	-	-	(313)	-	<b>(29,170)</b>
<b>31 March 2017</b>	<b>773,951</b>	<b>48</b>	<b>404,178</b>	<b>21,473</b>	<b>22,679</b>	<b>749</b>	<b>9,233</b>	<b>944</b>	<b>1,233,255</b>
<b>Accumulated depreciation &amp; impairments</b>									
1 April 2016	(176,457)	(1)	(45,947)	(360)	(3,027)	(14)	-	-	<b>(225,806)</b>
Charge in the year	(18,499)	(1)	(7,788)	(364)	(419)	(13)	-	-	<b>(27,084)</b>
Impairments	(3,490)	-	(505)	-	-	-	-	-	<b>(3,995)</b>
Reclassifications	321	-	(321)	-	-	-	-	-	-
Eliminated on disposals	26,975	-	632	-	-	-	-	-	<b>27,607</b>
<b>31 March 2017</b>	<b>(171,150)</b>	<b>(2)</b>	<b>(53,929)</b>	<b>(724)</b>	<b>(3,446)</b>	<b>(27)</b>	-	-	<b>(229,278)</b>
<b>Net book value</b>									
<b>31 March 2017</b>	<b>602,801</b>	<b>46</b>	<b>350,249</b>	<b>20,749</b>	<b>19,233</b>	<b>722</b>	<b>9,233</b>	<b>944</b>	<b>1,003,977</b>
31 March 2016	602,436	47	341,270	21,680	19,531	735	15,868	1,028	<b>1,002,595</b>

	Retirement Housing		Extra Care		PFI & PPP		Assets under construction		Total
	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	Rented	Shared ownership	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Freehold	545,338	46	206,845	15,815	-	-	-	-	<b>768,044</b>
Long leasehold	55,569	-	143,404	4,934	19,233	722	9,233	944	<b>234,039</b>
Finance Lease	1,894	-	-	-	-	-	-	-	<b>1,894</b>
<b>31 March 2017</b>	<b>602,801</b>	<b>46</b>	<b>350,249</b>	<b>20,749</b>	<b>19,233</b>	<b>722</b>	<b>9,233</b>	<b>944</b>	<b>1,003,977</b>

Depreciation charge in the year of £27,084k includes £8,729k of accelerated depreciation on replaced components (2016: £1,080k). The £3,995k impairment (2016: £nil) relates to 583 properties located on 21 schemes (2016: nil) and the carrying value of these schemes prior to the impairment was £30,522k.

## NOTES TO THE FINANCIAL STATEMENTS

## 13. Housing properties at deemed cost (continued)

## Works to existing properties

Expenditure on existing properties, other than on routine and planned maintenance, was as follows:

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
New components capitalised	15,087	12,331	15,087	12,279
Capitalised enhancements	11,047	8,451	10,907	8,438
Major repairs expensed (see note 4)	1,129	-	1,129	-
	<b>27,263</b>	<b>20,782</b>	<b>27,123</b>	<b>20,717</b>

The total amount of interest capitalised in the year was £268k (2016: £620k) and interest is capitalised at a rate of 4.5% (2016: 4.5%). The cumulative value of capitalised interest included in the net book value in Note 13 and properties held for sale in Note 15 is not separately recorded.

## Housing accommodation

	Group		Association	
	2017	2016	2017	2016
<b>Retirement Housing</b>				
Rented	11,031	11,055	11,031	11,055
Rented - general needs / family	91	91	91	91
Shared ownership	12	12	12	12
Leasehold	738	737	738	737
Staff accommodation	160	189	160	189
Owned but managed by others	248	249	248	249
Managed for others	29	29	29	29
	<b>12,309</b>	<b>12,362</b>	<b>12,309</b>	<b>12,362</b>
<b>Extra Care</b>				
Rented	4,250	4,150	4,199	4,099
Shared ownership	826	818	826	818
Leasehold	102	107	67	72
Staff accommodation	1	1	1	1
Managed for others	-	-	86	86
	<b>5,179</b>	<b>5,076</b>	<b>5,179</b>	<b>5,076</b>
<b>PFI / PPP</b>				
Rented	555	555	215	215
Shared ownership	70	70	70	70
Managed for others	1,476	1,476	1,816	1,816
	<b>2,101</b>	<b>2,101</b>	<b>2,101</b>	<b>2,101</b>
<b>Total</b>	<b>19,589</b>	<b>19,539</b>	<b>19,589</b>	<b>19,539</b>
<b>Units in development</b>				
For rent	163	174	163	174
For shared ownership	78	16	78	16
For outright sale	25	-	25	-
<b>Total</b>	<b>266</b>	<b>190</b>	<b>266</b>	<b>190</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 13. Housing properties at deemed cost (continued)

## Historic cost

If housing property had been accounted for under historic cost accounting rules, the properties would have been measured as follows:

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Historic cost (including assets under the course of construction)	1,179,942	1,174,634	1,101,659	1,096,490
Accumulated depreciation	(234,758)	(234,131)	(225,282)	(225,805)
	<b>945,184</b>	<b>940,503</b>	<b>876,377</b>	<b>870,685</b>

## 14. Other fixed assets

Group	Leasehold offices & improvements	IT & other equipment	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 April 2016	1,452	21,249	22,701
Additions	7	244	251
<b>At 31 March 2017</b>	<b>1,459</b>	<b>21,493</b>	<b>22,952</b>
<b>Accumulated depreciation</b>			
At 1 April 2016	(736)	(19,793)	(20,529)
Charge for the year	(164)	(746)	(910)
<b>At 31 March 2017</b>	<b>(900)</b>	<b>(20,539)</b>	<b>(21,439)</b>
<b>Net book value at 31 March 2017</b>	<b>559</b>	<b>954</b>	<b>1,513</b>
Net book value at 31 March 2016	716	1,456	2,172

Association	Leasehold offices & improvements	IT & other equipment	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 April 2016	1,452	21,241	22,693
Additions	7	243	250
<b>At 31 March 2017</b>	<b>1,459</b>	<b>21,484</b>	<b>22,943</b>
<b>Accumulated depreciation</b>			
At 1 April 2016	(736)	(19,785)	(20,521)
Charge for the year	(164)	(745)	(909)
<b>At 31 March 2017</b>	<b>(900)</b>	<b>(20,530)</b>	<b>(21,430)</b>
<b>Net book value at 31 March 2017</b>	<b>559</b>	<b>954</b>	<b>1,513</b>
Net book value at 31 March 2016	716	1,456	2,172



## NOTES TO THE FINANCIAL STATEMENTS

## 15. Housing properties and stock for sale

Group and Association	2017	2016
	£'000	£'000
Low Cost Home Ownership & Outright Sale properties available for sale	520	3,384
Low Cost Home Ownership & Outright Sale properties under construction	1,084	1,027
	<b>1,604</b>	<b>4,411</b>

## 16. Debtors

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<b>Greater than one year</b>				
Finance receivables	118,400	120,324	6,169	6,280
Amounts owed by group undertakings	-	-	2,129	2,129
Amounts owed by group undertakings – concessionary loans	-	-	37,447	36,598
	<b>118,400</b>	<b>120,324</b>	<b>45,745</b>	<b>45,007</b>
<b>Within one year</b>				
Rent and service charge arrears	2,396	2,287	2,391	2,282
Less provision for bad debts	(1,496)	(1,580)	(1,493)	(1,577)
	900	707	898	705
Trade debtors	3,774	6,008	3,800	6,008
Amounts owed by group undertakings	-	-	1,987	3,685
Prepayments, accrued income and other debtors	11,986	14,942	5,380	8,757
SHG and other capital grants receivable	625	-	625	-
	<b>17,285</b>	<b>21,657</b>	<b>12,690</b>	<b>19,155</b>

Other debtors include £1,000k (2016: £1,200k) owing as deferred consideration from the sale of Sure Care and First Call subsidiary companies in November 2015.

Housing & Care 21 provides concessionary loan funding to the following subsidiaries:

	1 April 2016	Movement	31 March 2017
	£'000	£'000	£'000
Kent Community Partnership	6,976	-	6,976
Oldham Retirement Housing Partnership	29,622	849	30,471
	<b>36,598</b>	<b>849</b>	<b>37,447</b>

The interest rates on the concessionary loans are as follows:

	Kent Community Partnership	Oldham Retirement Housing Partnership
Interest rate	11%	2%

## NOTES TO THE FINANCIAL STATEMENTS

## 17. Creditors: amounts falling due within one year

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Loans and borrowings (see Note 18)	(22,063)	(7,788)	(17,976)	(3,968)
Finance leases (see Note 18)	(75)	(68)	(75)	(68)
Trade creditors	(3,750)	(2,201)	(3,929)	(2,197)
Amount owed to Group undertakings	-	-	(6,593)	(6,750)
Other creditors	(9,131)	(8,326)	(8,560)	(7,819)
Accruals and deferred income	(61,334)	(64,994)	(36,366)	(40,726)
SHPS pension deficit contribution	(1,069)	(1,032)	(1,069)	(1,032)
	<b>(97,422)</b>	<b>(84,409)</b>	<b>(74,568)</b>	<b>(62,560)</b>

Further information on the SHPS pension deficit contribution is included in Note 26.

## 18. Creditors: amounts falling due after more than one year

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Loans and borrowings	(434,863)	(458,147)	(309,132)	(327,109)
Finance leases	(2,111)	(2,186)	(2,111)	(2,186)
	(436,974)	(460,333)	(311,243)	(329,295)
Less: funding costs to be amortised	1,391	2,162	(21)	675
Interest rate swap	(75,880)	(73,562)	(17,627)	(16,624)
Deferred capital grants (see Note 20)	(33,843)	(30,360)	(33,843)	(30,360)
Recycled capital grants fund	(2,005)	(2,720)	(2,005)	(2,720)
Sinking fund balances	(6,797)	(5,455)	(6,448)	(5,159)
SHPS pension deficit contribution	(8,570)	(9,205)	(8,570)	(9,205)
Lewisham pension liability	(187)	(219)	(187)	(219)
	<b>(562,865)</b>	<b>(579,692)</b>	<b>(379,944)</b>	<b>(392,907)</b>

Further information on the SHPS pension deficit contribution and Lewisham pension liability is included in Note 26.

The Recycled Capital Grant Fund balance consists of:

Group and Association	2017	2016
	£'000	£'000
At 1 April	(2,720)	(1,066)
Grants recycled	(267)	(1,654)
Transferred to deferred capital grants	1,000	-
Interest accrued	(18)	-
At 31 March	<b>(2,005)</b>	<b>(2,720)</b>
Amount due for repayment to the HCA / GLA	-	-



## NOTES TO THE FINANCIAL STATEMENTS

## 18. Creditors: amounts falling due after more than one year (continued)

Loans are secured by charges on the assets of the Association including specific charges on certain housing properties. Repayment of loans within the PFI special purpose vehicles are secured through charges on the income of the underlying PFI contract over their lifetime. Kent Community Partnership loans are also secured by charges on the assets of the company.

The Association entered into two finance lease agreements, commencing January 1997. These agreements are 35 years in duration and are full repairing and insuring leases, with an option for reversion during the 35th year. Under the terms of the lease contract, the Association has an obligation to make rental payments increasing at a compound rate of 3.5% per annum over the 35 year lease duration.

The weighted average interest rate is 4.26% (2016: 4.19%). At the 31 March 2017, the Group and Association had undrawn loan facilities of £70,000k (2016: £115,000k).

The loans and finance lease repayments are due as follows:

Group	2017				2016
	Bank loans	Other loans	Finance leases	Total	Total
	£'000	£'000	£'000	£'000	£'000
In one year or less, or on demand (see Note 17)	(8,061)	(14,002)	(75)	(22,138)	(7,856)
In more than one year and less than two years	(9,914)	(2)	(83)	(9,999)	(22,139)
In more than two years and less than five years	(38,642)	(7)	(301)	(38,950)	(31,080)
More than five years	(386,142)	(156)	(1,727)	(388,025)	(407,114)
	<b>(442,759)</b>	<b>(14,167)</b>	<b>(2,186)</b>	<b>(459,112)</b>	<b>(468,189)</b>

Association	2017				2016
	Bank loans	Other loans	Finance leases	Total	Total
	£'000	£'000	£'000	£'000	£'000
In one year or less, or on demand (see Note 17)	(3,974)	(14,002)	(75)	(18,051)	(4,036)
In more than one year and less than two years	(5,584)	(2)	(83)	(5,669)	(18,052)
In more than two years and less than five years	(26,217)	(7)	(301)	(26,525)	(18,465)
More than five years	(277,166)	(156)	(1,727)	(279,049)	(292,778)
	<b>(312,941)</b>	<b>(14,167)</b>	<b>(2,186)</b>	<b>(329,294)</b>	<b>(333,331)</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 19. Financial instruments

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Financial assets measured at historical cost				
- Rental & Service charge debtors	900	707	898	705
- Trade debtors	3,774	6,008	3,800	6,008
- Other debtors	11,369	13,764	9,014	11,521
- Investments in subsidiaries	-	-	6,485	6,485
- Cash and cash equivalents	69,532	49,430	48,856	28,347
- Amounts owed from group undertakings - concessionary loans	-	-	37,447	36,598
- Finance lease asset	118,400	120,324	6,168	6,280
<b>Total financial assets</b>	<b>203,975</b>	<b>190,233</b>	<b>112,668</b>	<b>95,944</b>
<b>Financial liabilities</b>				
Financial liabilities measured at amortised cost				
- Loans payable	(456,926)	(465,935)	(327,108)	(330,403)
Financial liabilities measured at historic cost				
- Trade creditors	(3,750)	(2,201)	(3,929)	(2,197)
- Other creditors	(26,192)	(31,715)	(22,760)	(28,397)
- SHPS pension deficit contribution	(9,639)	(10,237)	(9,639)	(10,237)
- Amounts owed to group undertakings	-	-	(6,593)	(6,750)
- Finance leases	(2,186)	(2,254)	(2,186)	(2,254)
Derivative financial instruments designated as hedges of variable interest rate risk	(75,880)	(73,562)	(17,626)	(16,624)
<b>Total financial liabilities</b>	<b>(574,573)</b>	<b>(585,904)</b>	<b>(389,841)</b>	<b>(396,862)</b>

## Hedges

To hedge the potential volatility in future interest cash flows arising from movements in LIBOR, the Group has the following floating to fixed interest rate swaps.

	Underlying loan	Underlying interest rate	Interest rate swap	Maturity of swap
	£'000			
Housing & Care 21	(35,000)	LIBOR	Receive LIBOR, pay a fixed 5.5%	April 2040
Oldham Retirement Housing Partnership	(67,671)	LIBOR	Receive LIBOR, pay a fixed 4.6%	October 2034
Kent Community Partnership	(29,539)	LIBOR	Receive LIBOR, pay a fixed 5.3%	September 2037
Kent Community Partnership	(32,607)	LIBOR	Receive LIBOR, pay a fixed 5.0%	March 2039

## NOTES TO THE FINANCIAL STATEMENTS

## 19. Financial instruments (continued)

The derivatives are accounted for as hedges of variable rate of interest, in accordance with FRS 102 and had the following fair values:

	1 April 2016	Movement recognised in CIS	Movement recognised in OCI	31 March 2017
	£'000	£'000	£'000	£'000
Housing & Care 21	(16,624)	-	(1,002)	(17,626)
Oldham Retirement Housing Partnership	(22,284)	182	(57)	(22,159)
Kent Community Partnership	(34,654)	-	(1,441)	(36,095)
<b>Group</b>	<b>(73,562)</b>	<b>182</b>	<b>(2,500)</b>	<b>(75,880)</b>

The Group's hedging instruments qualify for hedge accounting as they are in accordance with the objectives of managing interest rate cash flow risk. As a result, while the derivatives are recognised on the Balance Sheet, movements are taken straight to reserves through Other Comprehensive Income (OCI) to the extent they are effective. The element that is not effective is taken through the Comprehensive Income Statement (CIS).



## NOTES TO THE FINANCIAL STATEMENTS

## 20. Deferred capital grants

Group	Retirement Housing	Extra Care	PFI & PPP	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
<b>Grants</b>					
1 April 2016	(198,788)	(276,462)	(11,363)	(1,833)	(488,446)
Grants received	-	-	-	(2,853)	(2,853)
Transfer to / (from) RCGF	116	151	-	(1,000)	(733)
Completions	-	(2,441)	-	2,441	-
Reclassifications	1,118	(1,118)	-	-	-
<b>31 March 2017</b>	<b>(197,554)</b>	<b>(279,870)</b>	<b>(11,363)</b>	<b>(3,245)</b>	<b>(492,032)</b>
<b>Amortisation</b>					
1 April 2016	198,788	247,935	11,363	-	458,086
Charge for the year	-	320	-	-	320
Reclassifications	(1,118)	1,118	-	-	-
Disposals	(116)	(101)	-	-	(217)
<b>31 March 2017</b>	<b>197,554</b>	<b>249,272</b>	<b>11,363</b>	<b>-</b>	<b>458,189</b>
<b>Net book value</b>					
<b>31 March 2017</b>	<b>-</b>	<b>(30,598)</b>	<b>-</b>	<b>(3,245)</b>	<b>(33,843)</b>
31 March 2016	-	(28,527)	-	(1,833)	(30,360)

Association	Retirement Housing	Extra Care	PFI & PPP	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
<b>Grants</b>					
1 April 2016	(198,788)	(270,800)	(11,363)	(1,833)	(482,784)
Grants received	-	-	-	(2,853)	(2,853)
Transfer to / (from) RCGF	116	151	-	(1,000)	(733)
Completions	-	(2,441)	-	2,441	-
Reclassifications	1,118	(1,118)	-	-	-
<b>31 March 2017</b>	<b>(197,554)</b>	<b>(274,208)</b>	<b>(11,363)</b>	<b>(3,245)</b>	<b>(486,370)</b>
<b>Amortisation</b>					
1 April 2016	198,788	242,273	11,363	-	452,424
Charge for the year	-	320	-	-	320
Reclassifications	(1,118)	1,118	-	-	-
Disposals	(116)	(101)	-	-	(217)
<b>31 March 2017</b>	<b>197,554</b>	<b>243,610</b>	<b>11,363</b>	<b>-</b>	<b>452,527</b>
<b>Net book value</b>					
<b>31 March 2017</b>	<b>-</b>	<b>(30,598)</b>	<b>-</b>	<b>(3,245)</b>	<b>(33,843)</b>
31 March 2016	-	(28,527)	-	(1,833)	(30,360)

The Group receives grants from the Homes and Communities Agency and from the Greater London Authority, which are used to fund the acquisition and development of housing properties and their components. The Group may have a future obligation to recycle such grant once the properties are disposed of. At 31 March 2017, the total value of grant recycled is £2,005k (2016: £2,720k). See note 18 for more information.

## NOTES TO THE FINANCIAL STATEMENTS

## 21. Reconciliation of operating surplus to net cash inflow from operating activities

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<b>Operating surplus</b>	32,282	26,621	27,815	21,772
Depreciation – housing properties	28,235	19,036	27,084	17,874
Impairment – housing properties	3,995	-	3,995	-
Depreciation – other fixed assets	910	3,370	909	3,369
Grant amortisation	(320)	(130)	(320)	(130)
Profit on property sales included in Operating Surplus	(1,097)	(5,277)	(1,097)	(5,277)
Amortisation & impairment of goodwill	-	10,042	-	10,042
Sale of subsidiaries	(200)	(200)	(200)	(200)
Pension schemes	(1,039)	2,309	(1,039)	2,306
Decrease / (increase) in trade and other debtors	10,700	1,855	8,403	2,152
Increase / (decrease) in trade and other creditors	426	8,379	(253)	8,034
<b>Cash from operations</b>	<b>73,892</b>	<b>66,005</b>	<b>65,297</b>	<b>59,942</b>

## 22. Analysis of the changes in net debt

Group	At 1 April 2016	Cash Flows	Non-Cash Items	At 31 March 2017
	£'000	£'000	£'000	£'000
Cash	49,430	20,102	-	69,532
Bank loans	(463,773)	9,008	(770)	(455,535)
Finance leases	(2,254)	68	-	(2,186)
<b>Net debt</b>	<b>(416,597)</b>	<b>29,178</b>	<b>(770)</b>	<b>(388,189)</b>

Association	At 1 April 2016	Cash Flows	Non-Cash Items	At 31 March 2017
	£'000	£'000	£'000	£'000
Cash	28,347	20,509	-	48,856
Bank loans	(330,404)	3,968	(695)	(327,131)
Finance leases	(2,254)	68	-	(2,186)
<b>Net debt</b>	<b>(304,311)</b>	<b>24,545</b>	<b>(695)</b>	<b>(280,461)</b>

## 23. Share capital

	2017	2016
	£	£
Allotted, issued and fully paid	19	31

Each member of the Association holds a non equity share of £1 in the Association.

The shares carry no right to dividends. The shares are cancelled on the resignation of members from the Association. The shares carry the right to vote at meetings of the Association on the basis of one share one vote. No rights to participate in the net assets of the Association in the event of a winding up are conferred by the shares.

## NOTES TO THE FINANCIAL STATEMENTS

## 24. Capital commitments

Group and Association	2017	2016
	£'000	£'000
Capital expenditure contracted but not provided for	22,221	10,813
Capital expenditure approved but not contracted for	96,099	36,015
	<b>118,320</b>	<b>46,828</b>

Capital expenditure contracted but not provided for represents the amount committed to development sites for which the Group has a contractual obligation. Capital expenditure approved but not contracted represents potential commitments to development schemes for which funding has been allocated and form part of the business plan approved by the board. A formal investment appraisal is conducted on each development scheme before the Group enters a contractual obligation.

The capital commitments at 31 March 2017 will be funded by:

Group and Association	2017	2016
	£'000	£'000
Grant	12,504	9,039
Sales of development properties	58,288	25,665
Borrowings	47,528	12,124
<b>Total</b>	<b>118,320</b>	<b>46,828</b>

## 25. Commitments under operating leases

Amounts payable as lessee	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<b>On land and buildings:</b>				
Not later than 1 year	479	588	479	588
Later than 1 year and not later than 5 years	1,677	1,727	1,677	1,727
Later than 5 years	2,722	2,487	2,722	2,487
	<b>4,878</b>	<b>4,802</b>	<b>4,878</b>	<b>4,802</b>
<b>On other assets:</b>				
Not later than 1 year	207	185	207	185
Later than 1 year and not later than 5 years	235	250	235	250
Later than 5 years	-	-	-	-
	<b>442</b>	<b>435</b>	<b>442</b>	<b>435</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 26. Pensions

Housing & Care 21 participates in a number of defined benefit and defined contribution schemes. At the balance sheet date, 2,743 (2016: 3,632) employees contributed to a defined contribution scheme with the majority of employees a member of the National Employment Savings Trust (NEST).

At the balance sheet date 134 (2016: 215) employees were members of a defined benefit scheme. All schemes' assets are held in separate funds administered by the Trustees of each scheme. All defined benefit schemes are closed to new entrants.

## Group Stakeholder Plan with Axa Sun Life

Following the closure of the Social Housing Pension Scheme (SHPS) defined benefit scheme to new members, employees have been offered the opportunity to join the Group Stakeholder Plan. The pension cost of this scheme for the Association was £192k (2016: £216k) with 84 employee members at the year end (2016: 104). This includes £22k (2016: £1k) outstanding contributions at the Balance Sheet date.

## Prudential Group Savings Plan

This scheme has been closed to new members since 1997. The Prudential Group Savings Plan is a defined contribution scheme. The pension cost of this scheme for the Association was £14k (2016: £15k) with six employee members at the year end (2016: six). This includes £1k (2016: £1k) outstanding contributions at the Balance Sheet date.

## National Employment Savings Trust

To meet the new requirements of auto-enrolment in October 2013 all employees not part of one of the existing schemes were enrolled into the National Employment Savings Trust (NEST). This is a defined contribution scheme. The pension cost of this scheme for the Association was £293k (2016: £304k) with 2,131 employee members at the year end (2016: 3,092). This includes £35k (2016: £51k) outstanding contributions at the Balance Sheet date.

## Social Housing Pension Scheme – Defined Contribution (administered by The Pensions Trust)

Following the closure of the SHPS Defined Benefit structure to new members, employees have been offered the opportunity to join the SHPS Defined Contribution structure. The pension cost of this scheme for the Association in the year was £734k (2016: £669k) with 389 employee members at the year end (2016: 270). This includes £200k (2016: £51k) outstanding contributions at the Balance Sheet date.

## Social Housing Pension Scheme – Defined Benefit (administered by The Pensions Trust)

The Board decided to close the scheme to new employees at 30 June 2002 and to existing employees at 31 December 2002. From those dates employees have been offered the opportunity to join the group stakeholder pension plan or the SHPS Defined Contribution plan.

Housing & Care 21 accounts for less than 1% of the SHPS total membership.

The following disclosure has been provided by the administrators:

Housing & Care 21 participates in the scheme, a multi-employer scheme which provides benefits to some 500 non-associated employers. The scheme is a defined benefit scheme in the UK.

Tier 1	£40.6m per annum
From 1 April 2016 to 30 September 2020	(payable monthly and increasing 4.7% each year on 1st April)
Tier 2	£28.6m per annum
From 1 April 2016 to 30 September 2023	(payable monthly and increasing 4.7% each year on 1st April)
Tier 3	£32.7m per annum
From 1 April 2016 to 30 September 2026	(payable monthly and increasing 3.0% each year on 1st April)
Tier 4	£31.7m per annum
From 1 April 2016 to 30 September 2026	(payable monthly and increasing 3.0% each year on 1st April)

It is not possible for Housing & Care 21 to obtain sufficient information to enable it to account for the scheme as a defined benefit scheme. Therefore it accounts for the scheme as a defined contribution scheme.

The scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator and Technical Actuarial Standards issued by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The scheme is classified as a 'last-man standing arrangement'. Therefore Housing & Care 21 is potentially liable for other participating employers' obligations if those employers are unable to meet their share of the scheme deficit following withdrawal from the scheme. Participating employers are legally required to meet their share of the scheme deficit on an annuity purchase basis on withdrawal from the scheme.

A full actuarial valuation for the scheme was carried out with an effective date of 30 September 2014. This actuarial valuation was certified on 23 November 2015 and showed assets of £3,123m, liabilities of £4,446m and a deficit of £1,323m. To eliminate this funding shortfall, the trustees and the participating employers have agreed that additional contributions will be paid, in combination from all employers, to the scheme as follows:

## NOTES TO THE FINANCIAL STATEMENTS

## 26. Pensions (continued)

Note that the scheme's previous valuation was carried out with an effective date of 30 September 2011; this valuation was certified on 17 December 2012 and showed assets of £2,062m, liabilities of £3,097m and a deficit of £1,035m. To eliminate this funding shortfall, payments consisted of the Tier 1, 2 and 3 deficit contributions.

Tier 4 contributions commenced from April 2016 onwards for the first time.

Where the scheme is in deficit and where Housing & Care 21 has agreed to a deficit funding arrangement Housing & Care 21 recognises a liability for this obligation. The amount recognised is the net present value

of the deficit reduction contributions payable under the agreement that relates to the deficit. The present value is calculated using the discount rate detailed in these disclosures. The unwinding of the discount rate is recognised as a finance cost.

Present values of provision	31 March 2017	31 March 2016	31 March 2015
	£'000	£'000	£'000
Present value of provision	(9,639)	(10,237)	(7,698)

Reconciliation of opening and closing provisions	31 March 2017	31 March 2016
	£'000	£'000
Provision at start of period	(10,237)	(7,698)
Unwinding of the discount factor (interest expense)	(445)	(239)
Deficit contributions paid	1,043	695
Re-measurement – impact of any change in assumptions	-	-
Re-measurement – amendments to the contribution schedule	-	(2,995)
<b>Provision at end of period</b>	<b>(9,639)</b>	<b>(10,237)</b>

Comprehensive Income Statement impact	31 March 2017	31 March 2016
	£'000	£'000
Interest expense	(445)	(239)
Remeasurement – amendments to the contribution schedule	-	(2,995)

Present values of provision	31 March 2017	31 March 2016	31 March 2015
Assumptions	2.9%	3.1%	3.1%

## NOTES TO THE FINANCIAL STATEMENTS

## 26. Pensions (continued)

The discount rates shown are the equivalent single discount rates which, when used to discount the future recovery plan contributions due, would give the same results as using a full AA corporate bond yield curve to discount the same recovery plan contributions.

Housing & Care 21 must recognise a liability measured as the present value of the contributions payable that arise from the deficit recovery agreement and the resulting expense in the Comprehensive Income Statement, i.e. the unwinding of the discount rate as a finance cost in the period in which it arises.

Housing & Care 21 has been notified by The Pensions Trust of the estimated employer debt on withdrawal from the Social Housing Pension Scheme based on the financial position of the Scheme as at 30 September 2016. As of that date the estimated employer debt for Housing & Care 21 was £66,197k (2016: £53,668k).

The contributions outstanding at the balance sheet date for both the SHPS Defined Contribution and SHPS Defined Benefit schemes is £200k (2016: £159k).

**Local authority pension schemes**

Due to the TUPE transfer of staff, the Association participates in the following multi-employer defined benefit pension schemes:

**Oldham Metropolitan Borough Council Pension Scheme**

Oldham Metropolitan Borough Council's Pension Scheme is a defined benefit scheme. However, Housing & Care 21's liability in relation to its employees is capped at 20%. The scheme is therefore accounted for as a defined contribution scheme in accordance with Section 28 of FRS 102 as the charge in the Comprehensive Income Statement represents the employer contribution payable.

During the financial year Housing & Care 21 paid contributions at 18.8% (2016: 18.2%) totalling £44k (2016: £42k). This includes £4k (2016: £5k) outstanding contributions at the Balance Sheet date. There were 10 employee members at the year end (2016: 11). Employee contributions were between 5.5% and 6.5% (2016: 5.5% - 6.8%).

**Walsall Metropolitan Borough Council Pension Scheme**

Walsall Metropolitan Borough Council's Pension Scheme is a defined benefit scheme. However Housing & Care 21's liability in relation to its employees is capped at 14.7%. The scheme is therefore accounted for as a defined contribution scheme in accordance with Section 28 of FRS 102 as the charge in the Comprehensive Income Statement represents the employer contribution payable.

During the financial year Housing & Care 21 paid contributions at 18.3% (2016: 18.3%) totalling £259k (2016: £278k). There were 91 employee members at the year end (2016: 107). This includes £31k (2016: £32k) outstanding contributions at the Balance Sheet date.

The 3.6% difference between Housing & Care 21's capped employer contributions (14.7%) and actual employer contributions (18.3%) is reclaimed from Walsall Metropolitan Borough Council. Employee contributions were between 5.5% and 6.8% (2016: 5.5% - 6.8%).

**Suffolk County Council Pension Scheme**

The Association is an admitted body to the Suffolk County Council Pension Scheme which is administered by Suffolk County Council. Suffolk County Council's pension scheme is a defined benefit scheme. However, Housing & Care 21's liability in relation to its employees is capped at 20.8%. The scheme is therefore accounted for as a defined contribution scheme in accordance with Section 28 of FRS 102 as the charge in the Comprehensive Income Statement represents the employer contribution payable.

During the financial year Housing & Care 21 paid contributions at 25.1% (2016: 25.1%) totalling £19k (2016: £17k). This includes £nil (2016: £nil) outstanding contributions at the Balance Sheet date. There were 6 (2016: 6) employee members at the year end. Employee contributions were between 5.5% and 5.8% (2016: 5.5% - 5.8%).

**North Yorkshire Pension Scheme**

The Association is an admitted body to the North Yorkshire County Council Pension Scheme which is administered by North Yorkshire County Council. North Yorkshire County Council's pension scheme is a defined benefit scheme. However, Housing & Care 21's liability in relation to its employees is capped at 5.0%. The scheme is therefore accounted for as a defined contribution scheme in accordance with Section 28 of FRS 102 as the charge in the Comprehensive Income Statement represents the employer contribution payable.

During the financial year Housing & Care 21 paid contributions at 5% (2016: 5%) totalling £2k (2016: £3k). This includes £1k (2016: £1k) outstanding contributions at the Balance Sheet date.

There was 1 employee member at the year end (2016: 6). Employee contributions were 5.5% (2016: 5.5% - 5.8%).

**London Borough of Lewisham Pension Scheme**

The Association is an admitted body to Lewisham Pension Schemes (the Fund) which is administered by the London Borough of Lewisham under the regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

The last formal valuation of the Funds was at 31 March 2016. Actuarial valuations have been prepared as at 31 March 2017 on behalf of Housing & Care 21 (the Employer). For this purpose the value of the Funds as at 31 March 2017 have been estimated based upon the latest split of investments by category which was at 31 December 2016. The value of the Funds' liabilities as at 31 March 2017 were assessed by rolling forward the value of the Employer's liabilities reported as at the latest valuation.

## NOTES TO THE FINANCIAL STATEMENTS

## 26. Pensions (continued)

Reconciliation of defined benefit contributions	31 March 2017	31 March 2016
	£'000	£'000
Opening defined benefit obligation	502	519
Current service costs	12	12
Interest cost on defined benefit obligation	17	16
Contributions by members	2	2
Actuarial gains / (losses)	24	(30)
Benefits paid	(46)	(17)
<b>Closing defined benefit obligation</b>	<b>511</b>	<b>502</b>

Reconciliation of fair value of assets employed	31 March 2017	31 March 2016
	£'000	£'000
Opening fair value of assets employed	283	291
Interest income on plan assets	9	9
Contributions by members	2	2
Contributions by employers	8	7
Actuarial gains / (losses)	68	(9)
Benefits paid	(46)	(17)
<b>Closing fair value of assets employed</b>	<b>324</b>	<b>283</b>

	31 March 2017	31 March 2016
	£'000	£'000
Fair value of plan assets	324	283
Present value of plan liabilities	(511)	(502)
<b>Net pension scheme liability</b>	<b>(187)</b>	<b>(219)</b>

Analysis of actuarial loss recognised in Other Comprehensive Income	31 March 2017	31 March 2016
	£'000	£'000
Changes in financial assumptions	(65)	28
Other experience	41	2
Return on assets excluding amounts included in net interest	68	(9)
	<b>44</b>	<b>21</b>

Composition of plan assets	31 March 2017	31 March 2016
Equities	70%	67%
Bonds	19%	19%
Property	8%	9%
Cash	3%	5%

## NOTES TO THE FINANCIAL STATEMENTS

## 26. Pensions (continued)

Principal actuarial assumptions used at the balance sheet date

	31 March 2017	31 March 2016
Pension increase rate	2.4%	2.1%
Salary increase rate	3.1%	4.1%
Discount rate	2.5%	3.4%

## Mortality

Vita Curves with improvements in line with the CMI 2010 model assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2017	
	Males	Females
Current pensioners	22.2 years	24.6 years
Future pensioners*	24.0 years	26.5 years

\* Figures assume members aged 45 as at the last formal valuation date.

The pension costs of this scheme to the Association for the year was £7k (2016: £7k). This includes £1k (2016: £1k) outstanding contributions at the Balance Sheet date.

There were 2 employee members at the end of the year (2016: 2). The average contribution rate of the Association for the year ended 31 March 2017 was 22% (2016: 22%) and for employees 5.8% (2016: 5.8%).

## Closed schemes

The following schemes were closed during the year following the disposal of the Home Care business division:

	31 March 2017	31 March 2016
<b>City of Westminster Pension Scheme</b>		
- Number of employees	-	1
- Contribution rate	17%	17%
- Total contributions £'000	4	5
- Outstanding contributions £'000	-	1
<b>London Borough of Barnet Pension Scheme</b>		
- Number of employees	-	32
- Contribution rate	22.5%	22.5%
- Total contributions £'000	44	118
- Outstanding contributions £'000	-	9
<b>Group Stakeholder Plan with Scottish Equitable</b>		
- Number of employees	-	1
- Total contributions £'000	1	1
- Outstanding contributions £'000	-	-

## NOTES TO THE FINANCIAL STATEMENTS

## 27. Investments and subsidiary undertakings

	Group	Association
	£'000	£'000
<b>Cost</b>		
At 1 April 2016	-	25,602
Additions	-	-
Disposals	-	-
<b>At 31 March 2017</b>	<b>-</b>	<b>25,602</b>
<b>Accumulated impairments</b>		
At 1 April 2016	-	(19,117)
Charge in the year	-	-
Disposals	-	-
<b>At 31 March 2017</b>	<b>-</b>	<b>(19,117)</b>
<b>Net book value at 31 March 2017</b>	<b>-</b>	<b>6,485</b>
Net book value at 31 March 2016	-	6,485

The following comprise the subsidiary undertakings for incorporation into the consolidated accounts for the Group in accordance with the Co-operative and Community Benefit Society and Financial Reporting Standards.

The following companies traded during the financial year and were wholly owned subsidiaries of Housing & Care 21 as at 31 March 2017:

Name and principal activity	Country of registration	Status	Pension
<b>Housing 21 Guernsey LBG</b> Development and management of housing properties and the provision of care services	Guernsey	Private company limited by guarantee	Housing & Care 21 is a member and controls the composition of the Board
<b>Kent Community Partnership Limited</b> Building and managing stock in Kent	England and Wales	Co-operative and Community Benefit Society	Housing & Care 21 is a member and controls the composition of the Board
<b>Oldham Retirement Housing Partnership Limited</b> Management of sheltered housing stock in Oldham	England and Wales	Co-operative and Community Benefit Society	Housing & Care 21 is a member and controls the composition of the Board

The following companies are dormant:

Name and principal activity	Country of registration	Status	Pension
Claimar Care Limited	England and Wales	Private limited company	Ownership of 4,000,000 £1 shares being 100% of the issued share capital
Claimar Care Group Limited	England and Wales	Private limited company	Ownership of 4,999,514 £1 shares being 100% of the issued share capital
Housing 21 Development Services Limited	England and Wales	Private limited company	Ownership of one £1 shares being 100% of the issued share capital
Housing 21 Property Services Limited	England and Wales	Private limited company	Ownership of two £1 shares being 100% of the issued share capital

Housing & Care 21 Group consists of Housing & Care 21, a registered provider of social housing, and the subsidiary companies listed above.

## NOTES TO THE FINANCIAL STATEMENTS

## 27. Investments and subsidiary undertakings (continued)

## Transactions with non-regulated entities

Housing & Care 21 provides a number of services to its subsidiaries. The services are recharged based on the actual or estimated use of Housing & Care 21's resources.

These services are apportioned as follows:

	2017				2016
	Turnover	Operating costs	Interest payable	Total	Total
	£'000	£'000	£'000	£'000	£'000
Kent Community Partnership	2,080	(519)	(759)	802	751
Housing 21 Guernsey LBG	-	(237)	-	(237)	(236)
Oldham Retirement Housing Partnership	-	(3,458)	(648)	(4,106)	(3,722)
Gharana Housing Association	-	-	-	-	(33)
<b>Total</b>	<b>2,080</b>	<b>(4,214)</b>	<b>(1,407)</b>	<b>(3,541)</b>	<b>(3,240)</b>

## NOTES TO THE FINANCIAL STATEMENTS

## 28. Goodwill

	Group		Association	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 April / 31 March	21,915	21,915	17,967	17,967
<b>Accumulated amortisation and impairments</b>				
At 1 April	(21,915)	(11,873)	(17,967)	(7,925)
Amortised during the year	-	(1,687)	-	(1,687)
Impairments	-	(8,355)	-	(8,355)
At 31 March	(21,915)	(21,915)	-	(17,967)
<b>Total 31 March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

On 28 February 2007, the Association acquired the leasehold management business of 17 housing schemes from James Butcher Housing Association for £3,000k. An intangible asset, goodwill, has arisen on the difference between the price paid for the business and the fair value of the net assets and is being amortised over 20 years in accordance with FRS 10. The goodwill amortised in the year was £nil (2016: £153k).

On 28 September 2009, the Association acquired Claimar Care Group PLC for £20,624k. An intangible asset, goodwill, has arisen on the difference between the price paid for the business and the fair value of the net assets and is being amortised over 10 years. The goodwill amortised in the year for the Group was £nil (2016: £1,866k), and for the Association £nil (2016: £1,534k).

In 2016, an impairment charge of £8,355k, which equated to the remaining net book value of both the goodwill associated with the purchases of James Butcher Housing Association and Claimar Care Group PLC, was recognised in the Comprehensive Income Statement due to the challenging environment and the future challenges of National Living Wage and social care funding cuts.

## 29. Related party transactions

No related party transactions have been entered into during the year, other than those disclosed in the Financial Statements, which might reasonably affect any decision made by the users of these Consolidated Financial Statements (see Note 27 for further information on related party transactions).

## 30. Post-balance sheet events

There are no post balance sheet events.







# Financial Statements 2016/17



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